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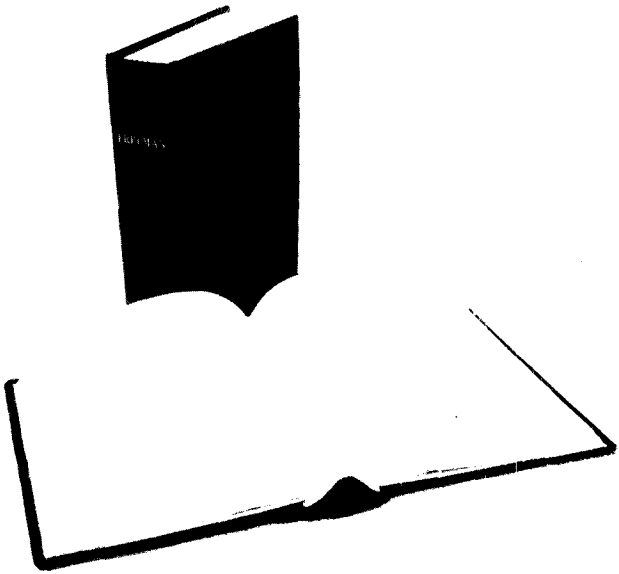

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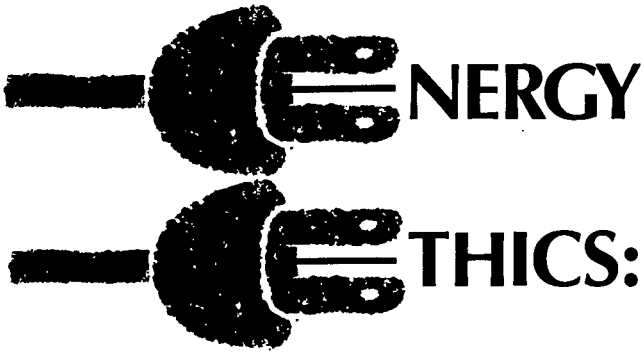
James A. Weber



A Positive Response

ENERGY is the capacity to do work. We use energy to do work which otherwise would have to be done by using our arms and legs and backs. It is through the increased use of inanimate energy such as coal, oil, gas and nuclear power in place of and as an extension of our own human energy that we have been able to achieve continuing material progress. Energy performs an extremely vital function which is just as important today as it has been in the past and will be in the future.

In these times, however, energy is being asked to do many things which it hasn't been asked to do in the past. It apparently is not enough that energy does an ever-increasing amount of work for us. Now, energy is also being asked to help rearrange our social relationships. In addition, it is being asked to assist in devising a new economic system. Furthermore, it is being asked to contribute to the development of a new political system. Finally, it is being asked in one way or another to practically show us the way to salvation.

With all these demands, it would come as no surprise if energy were to simply throw up its hands and say: "I'm going out and have a nervous breakdown; I deserve it." Perhaps to some extent, this is what we have been witnessing in recent years

Mr. Weber of Chicago specializes in communications and public relations. He is author of *Power Grab: The Conserver Cult and the Coming Energy Catastrophe*, reviewed in the July 1980 *Freeman*. He made this presentation at an energy awareness/management conference called "Energy Crossroads.". Held on November 18–19, 1980 at the Lutheran School of Theology, Chicago Cluster, the conference was cosponsored by the school and Energy Education Programs, Woodstock, Illinois.

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in the case of energy: a nervous breakdown.

And no wonder. Following the energy crisis in 1973, it seems that every group in the country has come forward with plans and proposals for what energy should or shouldn't be, should or shouldn't do, should or shouldn't develop into. Oftentimes, the basic function of energy to do work has seemingly been ignored, if not completely forgotten, in the rush to use energy as a tool for accomplishing some social, economic, political or moral goal. And, in this rush to capture energy for "our side," religious groups have become increasingly vocal.

The Religious Perspective

The religious approach is on two levels. One is the quite practical level on which all of us operate: How can we reduce the amount of energy we use, or use it more efficiently, in order to hold the line on, or even reduce our energy costs? There are of course many positive and practical things that can be done at this level.

The other level is more of a philosophical one in which the overall role of energy is evaluated from a social, economic, political and, ultimately, theological perspective. Many of the questions asked at this level are ones that weren't asked as little as 10 years ago. The number of people who in 1970 questioned the relative ethical merits of solar energy versus nuclear energy or pondered the moral worth of co-generation were distinctly in the minority. Yet questions like these apparently are of blazing theological significance to many religious groups today.

To develop answers to these questions, we must have some historical perspective on energy and its role in past and present societies. For example, why use energy in the first place? Why not just use our own human energy and forgo the use of other energy forms? Because we human beings are extremely small, inefficient and costly producers of energy.

Working at maximum strength, we might be able to produce enough energy to power a 100-watt bulb—but only for a short time. Some of you may recall Bronko Nagurski who played fullback for the Chicago Bears. Bronko was once asked where he got his tremendous physical strength. He said it came from plowing fields. But they said to him: "Oh, c'mon, Bronko, a lot of people plow fields and don't have a build like yours." And Bronko's response was: "Without a horse?" Just imagine Bronko Nagurski plowing a field without a horse. How much power do you think he was producing? Just about enough to power a 100-watt light bulb, which is an infinitesimal amount in the world of energy.

We human beings are also very

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inefficient energy users when you consider the total amount of energy which goes into producing the food we consume to provide our energy. It takes about 10 units of energy in terms of gas to power farm tractors and other energy to produce fertilizer, bring food to market and refrigerate it before use to produce one unit of food energy. So, by the time food gets on the table, it represents an energy efficiency level of only 10 per cent. Then, when we consume the food, our bodies use up about two-thirds of its energy content just to keep our systems going. Only what's left is available for doing work and this comes to an efficiency level of only about 3 per cent. By comparison, a nuclear or coal-fired power plant operates at an efficiency level of 40 per cent or more.

Finally, human energy is very costly. Take, for example, a simple task such as toasting a piece of bread. If we were to use human energy, we could hook up a bicycle to a generator and peddle the bicycle to produce electricity to toast the bread. Now, a typical toaster hits a piece of bread with 1,000 watts for one minute to toast it. But, since we can only produce about 100 watts, we would have to peddle the bicycle furiously for about 10 minutes to achieve the same toasted bread. Suppose we hired somebody to toast this piece of bread for us at a minimum wage of $3 per hour. It would cost us 50 cents to have the worker peddle the bike for 10 minutes. But the electricity which comes out of that hole in the wall to toast the bread would cost only 1/10th of a cent at a rate of 6¢ per kilowatt-hour. In other words, human energy would cost 500 times more than inanimate energy, and this ratio between the costs of human energy versus inanimate energy holds true for other jobs, too.

Human Energy Is Limited

Man, therefore, is a small, inefficient and costly producer of energy. Today, there is a highly vocal position which has grown up around the view that this smallness of man is a good thing. The philosophical or theological leader of this movement is the late E. F. Schumacher, and the "bible" of the movement is his book, *Small Is Beautiful*. In this book, Schumacher states that "man is small, therefore, small is beautiful." This view has become the starting point for a whole string of supposedly "moral" positions concerning energy, including the use of so-called "natural" or "soft" versus so-called "unnatural" or "hard" energy resources, operation of decentralized versus centralized energy facilities, and zero versus continuing growth in the use of energy.

However, it should be pointed out that there is nothing "beautiful" about being small to men and women who need energy to improve living

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conditions for themselves and their families. So it should not be a source of wonder that not only have people been eager to develop energy but the history of human advancement has been based on the increasing use of larger, more efficient and more economical energy resources in place of the small, inefficient and costly energy provided by human beings.

Primitive man consumed energy only in the form of plant food, and his consumption consisted of about 2,000 kilocalories a day—only enough to keep him functioning from day to day. This more than doubled to 5,000 kilocalories a day when he began to hunt and use fire as a source of energy. Early agricultural man more than doubled energy consumption again to 12,000 kilocalories a day. Another doubling occurred to 27,000 kilocalories a day when agricultural man advanced through the use of better tools and domestic animals. Early industrial man almost tripled his daily energy consumption to 70,000 kilocalories a day around 1870. By 1970, we had more than tripled energy use again to 230,000 kilocalories a day.

This tremendous growth in energy consumption over the last 10,000 years has basically enabled people to do more and more work with less and less human energy, freeing people from the physical slavery of the past. As Roger Revelle, Harvard professor of population policy, puts it: "An old saying has it, 'slavery will persist until the loom weaves itself.' All ancient civilizations, no matter how enlightened or creative, rested on slavery and grinding human labor, because human and animal muscle power were the principal forms of energy available for mechanical work. The discovery of ways to use less expensive sources of energy than human muscles made it possible for men to be free."

Labor-Saving Devices

To put this point another way, the historical record of growth in energy consumption provides the most splendid record of energy conservation that we have available to us today. This may seem like a contradiction. How can growth in energy consumption be an example of energy conservation? The reason is that growth has been in the consumption of inanimate energy, making it possible to conserve human energy, thus freeing people for creative, intellectual, organizational, and managerial work which only they are capable of doing. This increased freedom, of course, is especially relevant in the case of women who have been relieved of much of the physical drudgery of housework, while simultaneously being provided increased opportunities for jobs and careers which don't involve heavy physical labor.

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What have been the results of this growth in energy consumption? The International Institute for Applied Systems Analysis in Austria studied this question and found that increasing per capita energy consumption is closely associated with increases in our life spans and reductions in infant mortality. In other words, although many other factors are undoubtedly involved, growing energy consumption has made it possible for more people to survive to adulthood and live longer lives after they do. To put it another way, growing use of energy has created an environment more conducive to the health and well-being of people.

Growing use of energy has also created a safer environment for people. Today, the risk of disabling or fatal accidents is reduced because energy has reduced the need for people to do physical work, thus reducing the greatest occasion for accidents. The National Safety Council reports, for example, that "between 1912 and 1977 accidental deaths per 100,000 population were reduced 41 per cent from 82 to 48."

Growing energy consumption has also been accompanied by a long-term reduction in the real cost of energy. As more and more energy has been used, its real cost has become lower. This has not been a constant trend. There have been peaks and valleys along the way, just as we are now in a period when real costs are rising rather than falling. But the long range historical trend has been one of falling energy prices in real terms.

Furthermore, the increasing use and falling cost of energy have helped to narrow the gap between rich and poor. Studies show that inequalities of income between rich and poor become less as energy usage increases. Another way of stating this is that it is only in countries with high energy usage that you find a significant middle class.

Economic Development Slows Rate of Population Growth

Socioeconomic advancement, fueled by growth in energy consumption, has also been accompanied by a gradual slowing in the rate of population growth. This is a common and paradoxical occurrence in countries as they economically advance. Even though the advance brings with it expanded longevity and a falling death rate, the birth rate eventually falls even faster, resulting in leveling out of population growth.

Now, for all of these reasons, up until the late Sixties or early Seventies, growth in energy consumption was generally considered to be a "good thing." However, since this time, this assumption has come under increasing attack by many different groups, including religious groups, who claim that continuing

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growth in energy consumption is not a "good thing" but a "bad thing."

For example, it is claimed that increasing use of energy is destroying the natural environment. Amory Lovins of the environmentalist organization, Friends of the Earth, expresses this view when he states that "it would be little short of disastrous for us to discover a source of clean, cheap, abundant energy because of what we might do with it." Population controller and environmentalist Paul Ehrlich is more blunt about it, stating that to give society cheap, abundant energy would be "the equivalent of giving an idiot child a machine gun." The testimony of these observers leads to the conclusion that our problems today consist of having too much rather than too little energy. But these views give no credence at all to the observable reality that growing energy use has not only helped to improve the well-being and health of people but helped to create a more habitable human environment.

It is claimed that the energy resources we currently use—coal, oil, natural gas and nuclear power—are finite and are running out, and therefore should no longer be used. But this view flies in the face of the fact that there are sufficient reserves of these energy resources to fuel continuing increases in energy use for centuries to come.

It is claimed that tremendous amounts of energy are wasted and therefore conservation and conservation alone can permit continuing economic advancement without the need for increased energy use. However, this view is based on invalid comparisons with other countries whose energy requirements are different. It also totally neglects the fact that many people in this country—particularly lower-income people—have already reduced their energy use to the bare minimum. Consequently, any further conservation or reduction in energy use will exert real and immediate human hardships.

Many Questions Unanswered

It is also claimed that so-called renewable energy sources such as solar energy, wind power and biomass can provide for any additional increase in energy we may need while eventually replacing our so-called non-renewable energy resources — coal, oil, gas and nuclear power. But no mention is usually made of the fact that the costs of solar energy, wind power and biomass currently are many times those of coal, oil, gas and nuclear power, putting them well beyond the pocketbooks of all but the most affluent Americans.

Finally, it is claimed that energy conservation, plus the use of so-called renewable energy resources such as solar energy, wind power and biomass, will result in improved family

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life, better social relationships, greater political participation and more moral lifestyles. But one has to seriously ask if energy, whose basic function is to do work, is really capable of accomplishing all of these other worthy objectives. Or is this simply a case of attempting to use energy as some kind of "magic wand" to solve basically human problems when in fact the problems, as always, reside not so much in the choice between centralized nuclear power plants and decentralized solar energy facilities but in the human heart?

It is difficult enough to discuss much less come to any kind of conclusion concerning questions such as these when all of the facts on energy are completely known and accepted. But it is literally impossible if basic energy facts are unknown or ignored.

It is therefore highly important to know and understand the basic facts of energy. And the most basic fact about energy is that its primary purpose is to do work. You or I may come up with all kinds of glorious, utopian schemes on how we can use energy to improve our social, economic, political and moral conditions. But the basic ethical question which must be asked first of any energy proposal is: Will it provide sufficient energy to do the work necessary to not only maintain but advance the health, well-being, safety and socioeconomic progress of all people, poor as well as rich? Any answer to this question which does not come up a resounding "YES" represents an irresponsible and unethical toying with the lives and fortunes of people rather than a legitimate and ethical path of future energy development.

Life Is Energy

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THIS entire planet is made up of energy. The atoms of air surrounding it are energy. The sun pours energy upon this air and upon this earth. Life depends on energy; in fact, life *is* energy.

Every living thing must struggle for its existence, and human beings are no exception. The thin defenses of civilization tend to obscure the stark realities; but men and women survive on this earth only because their energies constantly convert other forms of energy to satisfy human needs, and constantly attack the nonhuman energies that are dangerous to human existence.

In the last analysis, there can be no progress except through the more effective use of our individual energies, personal initiatives, and imaginative abilities—applied to the things and forces of nature.

HENRY GRADY WEAVER, *The Mainspring of Human Progress*

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Henry Hazlitt

WHEN WATER IS SCARCE

As I write this, New York City, Greenwich, Connecticut, and many towns in New Jersey, are faced with a water shortage. Universally their officials are ascribing this shortage to "lack of rain."

That is certainly one cause. But there is another no less important. Water is distributed and consumed on socialistic principles. In New York City water metering is required for all commercial buildings, but not for residential buildings. Water is then paid for by the user not in proportion to what he consumes, but in his general tax bill.

So it is used wastefully. Any number of families let the water run freely, prolong their showers, never think twice before turning on their dishwashers, watering their lawns or washing their cars. They are worried even less about wasting the city water supply. On hot days fire hydrants are opened up, allowed to gush freely all day, so that an occasional urchin can wade and splash in an artificial river of water.

When it is suddenly announced that the water is in short supply, everybody is worried.A few token economies are suggested. But even a conscientious consumer may think something like this: "Of course I intend to economize. But what can my own picayune economies amount to compared with the total consumption? And how can I be confident that others will economize?" While the less conscientious may be tempted to think: "What difference will it make to the total consumption if I continue to use water as carelessly as I have been using it? And how will anybody else find out?"

None of these problems would arise under a metering system, in which the individual or family user pays for each gallon he uses, and saves on each gallon he doesn't use. Then each family has a clear and direct incentive to economize. And in a serious water shortage, a city could raise the price it charged per gallon.

I am aware that this single proposed change doesn't answer all questions. Meters are expensive. It takes time to make and install them. In ordinary circumstances the "free" common use of water may look like the cheapest and most sensible system.

But what happens when water use is socialized helps to explain what happens wherever the socialist principle is adopted.

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Clarence B. Carson

REFORMER WATCHING will probably never catch on as a national pastime. It requires more patience than watching baseball. It is less stimulating than girl watching, more esoteric than bird watching, and has more moves which must be carefully pondered than does chess. As if that were not enough, most of the time you don't even know what you are looking for.

Reformers are so adept at concealing their intent that even the most skilled observer is apt to become confused. If baseball were played their way, no one would know where the bases are, and the location of home plate would be a deep dark secret. Even so, reformers need watching, for if they are left to their own devices they are capable to doing an immense amount of harm. It has been well said that the price of liberty is eternal vigilance, and the kind of vigilance required for keeping reformers in their place may be likened to that of a pitcher with a runner on first.

I bring considerable experience to these observations. As unpalatable as the undertaking may appear, I have spent a goodly portion of my adult life as a reformer watcher. I have watched them mount their media campaigns, belabor the ills that beset us from this or that or the other source, mobilize their legislative contingent, bring pressure on presidents, make their appeals to the courts, and enact their programs. I have studied the ideas that animate them and sought to uncover the results of their reforms. I have even seen them slip over to join the critics of some reform they had

Dr. Carson has specialized in American intellectual history. This, he suggests, is what accounts for his expertise at watching reformers.

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earlier pushed when the disastrous results had become so manifest that denial would be counterproductive.

I am, then, an inveterate reformer watcher. It is my specialty. From my reading, study, research, and writing I have drawn some conclusions. Even those who lack the stomach for reformer watching themselves may find these conclusions worth their while.

Identifying the Reformer

Before announcing my conclusions, however, it might be well to identify the reformer I have in mind. There are reformers and reformers. My favorite among them is the fellow who sets out to reform himself, leaves others to their own designs, and having accomplished some portion of his purpose allows us to notice the improvement without editorializing about it himself. Another reformer, of sorts, is one who introduces changes, either social or mechanical, which are so superior that others imitate him. However, he is usually thought of, and correctly, so long as he sticks to his own affairs, as an innovator rather than a reformer.

Then, there is the reformer who calls upon us to mend our ways, a variety I find most attractive when he is talking about other people's faults. There have been reformers, too, who have sought to extend individual liberty and voluntary social arrangements by limiting and restraining government. I count myself among these but do admit that we will bear some watching, for not every such change can be accomplished so as to produce salutary results. My own considered view is that all change should be approached warily, for new ills are less easily countered than those with which we are familiar.

But the reformer who needs constant watching, the one who is the focus of our attention here, is of a different breed. That is not to say that in his humanity and foibles he is different from the rest of us. Not at all. On the contrary, the seeds of his vice reside in every human breast. His vice is the conceit that he has been called to straighten out the rest of us. While the conceit may distinguish him, the inclination probably does not. Each of us is equipped with a will to order our surroundings to our own liking, and, so far as people are concerned, we must notice early on that they will just not do to suit us. They pursue their own interests rather than ours, consult their own tastes rather than ours which are more discriminating, and are not overly receptive to our efforts to set them straight.

If that were the extent of the matter, the reformer would be unremarkable. Watching him would be no more than watching the human species in action. The making of the

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kind of reformer we have in mind involved much more. It involved the changing of what is recognizable as a vice, meddling into the affairs of others, into a virtue. This, the reformer achieved by imputing to his concern for others an active responsibility for their well-being. Men, in general, had to be conceived as perpetual children, standing constantly in need of direction and supervision by some tutelary power. Once that had been done, the reformer would be virtuous, for he would be looking after those incapable of looking after themselves.

The Reformer Is Utopian and Promises Steady Improvement

More, the reformer who is the center of our attention here is an utopian. He doesn't usually admit it, but he is. He visualizes a world brought to perfection under the tutelage of the reformer. It will be a world in which politicians have no interests of their own to pursue but are diligently devoted to the general welfare, in which all contraptions work perfectly, in which all risks have been removed from life and everything is safe, in which everyone is vigorously working in concert for the general good. It is a world in which competition has given way to cooperation, in which there is freedom without responsibility, plenty without the necessity for struggle, and full time pleasure with never a pain. His vision is of a land that is nowhere, therefore, an utopia.

Of course, the reformer does not usually profess his utopianism; instead, he promises improvement, albeit steady and, hopefully, continuous. How is all this to be brought about? Now, we are at the nub of the matter. The reformer claims to have discovered a wondrous machine that will bring all this to pass. That machine, or mechanism, is *government!* The reformer did not discover government, of course; that has been around for some time. What he has discovered, or alleges, is that government can be used to bring about marvelous improvements in our condition.

In view of its antiquity, this is a strange claim to make about government. We might suppose that if government were capable of performing such marvels, many, if not most of them would long since have been vouchsafed to us. Sad to say, that has not been the case. Even the most casual student of history must recognize that the record of government has been quite uneven. Indeed, far from being in much position to improve people, most governments have stood greatly in need of improvement themselves.

Far be it from me to blacken the reputation of government, however, for I perceive it to be necessary, if not a necessary evil then made necessary by the evil that lurks in our

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breasts. But the methods of government are not of the sort that would ordinarily inspire in us the belief that they could be generally applied so as to improve our lot. Lest we forget, government has to do with the least attractive of all legitimate human endeavors. The basic business of government is to maintain the peace, and to do so it must resort to *force,* using it only against wrongdoers, hopefully, but force nonetheless. Its constabulary seizes people against their wills, locks them up, surrounds them with intimidation, and compels them to submit to judgement. Its officers are fitted out with weapons of one sort or another: pistols, sticks, heavy flashlights, rifles, and other death or injury dealing instruments.

The Role of Government

Government is the only body within society charged with the duty of compelling, incarcerating, maiming, and killing, when and as the occasion for it arises. To support itself, government seizes some portion of the substance of the people who live under its sway. At best, government is a considerable burden; at worst, it is the cross which those who are more or less innocent bear for the presence amongst them of the more pronounced wrongdoers.

Of course, the reformers I have in mind do not usually face the problem of the forceful and imperfect nature of government (or of those who govern) head-on. It is not government, the ancient and immemorial user of force, that they profess to have discovered. It is, instead, *democratic government.* The reformers have, so to speak, stolen first base; they have engaged in some sleight-of-hand. They have set aside the problem of perfecting government and substituted for it the perfecting of democracy. There is little doubt that if perfect democracy consisted of everyone voting, democracy could be very nearly achieved. But how government would be improved, much less perfected, is by no means clear. The proof is lacking for establishing as a fact the view that government is either substantially altered or improved by the expansion of the electorate.

Here is where the sleight-of-hand comes in. In democracy, they will have us believe, the government becomes all of us. Government is no longer that specialized instrument of force that it has ever been; it has been transformed into the general will. It is supposedly purified of its dross by the alchemy of the popular vote. Such a change is not apparent, however, to the skeptical and unbelievers. Government still acts by the police, the military forces, resorts to taxation, and uses coercion to attain its ends.

Even so, the reformers have proceeded toward their goal by stealing

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second base. Unable to change the character of government, they have sought, instead, to change its image. They have downplayed its activities having to do with crime and punishment and presented it as a benefactor which provides goods and services to the people. In recent years, reformers have labored with might and main to restrict and limit if not actually to do away with government's use of force on criminals. They have opposed capital punishment, limited police activity, provided Federal aid to improve the image of the police, attacked the FBI, sought to reform prisons, and opted for probation rather than punishment.

Expanding the Benefits

Meanwhile, reformers are ever pressing to expand the supposed government benefits. The government makes grants, loans, pays subsidies, provides Medicare, Medicaid, builds sewage systems, offers aid to schools, props up local government with aid, and in thousands of ways showers benefits upon the populace. It is no wonder that this would be attractive to politicians. Not only can they run for office and bid with one another for who will give the most benefits but also they can largely disassociate themselves from the unsavory business of capturing and punishing criminals, an activity in which the use of force is direct and obvious.

The reformers have stolen third base, too. They are in the process of changing the object of the law. Law has usually been basically concerned with the protection of life and property from trespassers. It still serves that function to some extent, of course, but reformers have shown much more diligence of late in preserving the lives of criminals than of their victims. As for property, they are given to declaring that lives should not be endangered to protect it. Rather, they have been busily advancing legislation for the creation of a host of new crimes. These laws have to do especially with regulating, restricting, restraining, and compelling commercial activity. The government has been becoming the dominant third party in all transactions between employers and employees and buyers and sellers. There is said to be a great increase in "white collar" crime in our day. Small wonder, when every transaction is fraught with the danger of criminal prosecution!

Finally, the reformers are in the process of stealing home plate. They are doing so by changing government from its role as protector of property to plunderer of property. Government is still an instrument of force, but it is changing the focus of its exercise of force and bringing it to bear on the property of the citizenry. What can be bought with a given amount of money is rapidly

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declining as government increases the supply. Ever larger amounts are being taken in taxes to pay for the benefactions of government. Even where property is technically left with its private owners, control over it is being taken away by regulations and prescriptions as to how it is to be used.

Who Are They?

Who are these reformers? They are all those who act on the premise that the responsibility for the well-being of each of us is collective, who see government as the instrument for implementing this collective responsibility, and who formulate and support programs of this character. The animating idea behind them is socialism, but they are not usually called by that name in the United States. They have been most commonly called liberals for the last half century or so. They are more apt to be Democrats than Republicans. Their home base is usually some sort of intellectual endeavor: college professor, school teacher, dramatist, journalist, preacher, editorial writer, or what have you. For several decades, their assumptions have held sway in the media of communication.

We should not suppose, however, that the reformers are always victorious, that they are able to move in a straight line toward whatever is their goal. On the contrary, they have suffered many set backs along the way. That is the moment when they require the most vigilant watching, however. For they are quite adept in turning apparent defeat into victory. This is especially the case when the victory is so superficial as to leave their assumptions still in control.

We may be faced with just that set of circumstances at the present time. It is generally believed that the election of Ronald Reagan to the presidency and of a Republican-controlled Senate in 1980 was a considerable set back to the reformers we have been discussing. Superficially, it undoubtedly was, and it may well turn out to be a much deeper change than we can yet know. But there were signs, even before Mr. Reagan was inaugurated, of the reassertion of the assumptions of the reformers. The most prominent sign was the repeated assertion in the media that the newly elected President was going to concentrate on getting *the economy* functioning well during the early months of his administration.

Beware the Assumption

There is an assumption in this assertion of which we might well be wary. It may not be an assumption of Mr. Reagan's. It may not be an assumption of people in his administration. It may not be the assumption which is widely held in the Congress. But it is an assumption,

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nonetheless. The assumption is that it is the business of government to keep the economy functioning well. There is a tacit assumption, too, if I mistake not, that our economic ills are somehow the result of something wrong with our *economy*. If that assumption be accepted, it would seem to follow that the government has the task of *reforming* the economy.

The problem, as I understand it, lies in a different direction. The problem lies mainly in a bloated and malfunctioning government, in a government which has assumed a mass of responsibilities beyond its authority and ability to perform. To put it another way, the government is doing its basic task neither well nor effectively, its basic task of keeping the peace and protecting Americans from trespassers both at home and abroad. Its interventions in the economy have indeed done great harm, but the task is not to get the economy functioning but to contain and limit government so that it can perform its functions well. All this may be only a matter of semantics, but that is how assumptions get planted, by words, and it is the assumptions which tend to pull our actions along with them.

At any rate, it is this sort of thing that I mean by reformer watching. Of course, the subject of reformer watching cannot be exhausted in one easy lesson. It is at least as complex as bird watching—ornithology—and I have enough material on hand for a college course on the subject. Come to think of it, it is of such importance and urgency that every college, and most high schools, should promptly require such a course. And, since I doubt that I will be able to persuade all of them to introduce it voluntarily, plus the fact that the effort would take too much time, there ought to be a law passed forthwith requiring the teaching of it in all schools. How would that be as a reform?

If that last paragraph be taken in the spirit in which it was written, it may lead us to the most important variety of reformer watching. I suspect that each of us has a little reformer inside him. It may be undernourished and insignificant in all those going about their own business and shouldering their responsibilities. But as soon as we are ever enticed by the notion of unloading some of our responsibilities on others, and especially on government, the reformer begins to gain hold of us. Most of us have our hands full in watching that potential reformer in ourselves. In fact, if each of us would take care of that particular reformer there would be no occasion for reformer watching at large, even for those who may derive pleasure from it.

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Lawrence W. Reed

7 Fallacies of Economics

A NEWS COMMENTATOR once observed that "any half-dozen economists will normally come up with about six different policy descriptions."

It certainly does seem that way! If economics is a "science," then why does it defy the precision, the certainty, and the relative unanimity of opinion which characterize so many other sciences—physics, chemistry, and mathematics, for instance?

If laws of economics and human action exist and are immutable, why do we find economists all over the board on matters of critical importance? Economist A champions a tax cut while Economist B favors a tax increase. Economist C argues for tariff protection but Economist D calls for free trade. Another economist proposes socialization and is opposed by yet another who advances the market economy. Indeed, if there is anything which all economists can agree on, it is that, well, they disagree.

Perhaps the cynic will glance at this economic Tower of Babel and condemn the study of anything economic. But that would be unfair to the many eternal truths which do exist in the field of human interaction in the marketplace. Such a view, moreover, is what some would call a "cop-out." It offers no plausible explanation for the confusion and no guides for sorting out what is correct from what is incorrect.

Yes, there are methods to the "madness" of economists. The fact that they do not all think alike *is* capable of explanation. Where might we start?

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First, economics is simply *not* physics, chemistry, or mathematics. It is the study of *human* action, and humans are not programmed robots. Yes, certain immutable laws of nature do indeed exist, but one of them is that humans are—each and every one of them—inner-motivated, creative, self-interested organisms. They range from docile to irascible, meek to daring, complacent to ambitious, smart to not-so-smart. As Adam Smith pointed out more than two hundred years ago, "In the great chessboard of human society, every piece has a principle of motion of its own, altogether different from that which the legislature might choose to impose upon it."

This inherent variability can easily give rise to dissent among those observing it and it can just as easily confound the predictions of those bold enough to place a mathematical handle on it.

Being individuals themselves, economists will differ in their value and ethical judgments. One who is a socialist will differ on a policy matter with one who is a libertarian. They may even agree on the outcome of that policy while disagreeing on whether that outcome is "good" or "bad." People who are well-intentioned and truth-seeking yet operating from divergent ethical premises frequently arrive at divergent conclusions.

In addition, economists may disagree because they have different data or insufficient data or no reliable data at all.

These are some, and I am sure not all, of the reasons why good economists may clash. The purpose of this essay, however, is to look for reasons for economic confusion in another direction. In brief, economists clash because, as Henry Hazlitt has so succinctly put it, "Economics is haunted by more *fallacies* than any other study known to man" (emphasis mine).

Is there such a thing as "bad economics?" You bet there is, just as surely as there is good plumbing and bad plumbing. If one means by "bad economics" the promotion of false reasoning, mistaken assumptions, and shoddy intellectual merchandise, then Hazlitt's comment ought to be enshrined as a law!

It may be an oversimplification, but I believe that the essence of "bad economics" can be distilled into the following seven fallacies. Each of them is a pitfall which the good economist will faithfully bypass.

1. The fallacy of collective terms. Examples of collective terms are "society," "community," "nation," "class," and "us." The important thing to remember is that they are abstractions, figments of the imagination, not living, breathing, thinking, and acting entities. The fallacy involved here is presuming

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that a collective is, in fact, a living, breathing, thinking, and acting entity.

The good economist recognizes that the *only* living, breathing, thinking, and acting entity is the *individual.* The source of all human action is the *individual.* Others may acquiesce in one's action or even participate, but everything which occurs as a consequence can be traced to particular, identifiable individuals.

Consider this: could there even be an *abstraction* called "society" if all individuals disappeared? Obviously not. A collective term, in other words, has no existence in reality independent of the specific persons which comprise it.

It is absolutely essential to determine origins and responsibility and even cause and effect that economists avoid the fallacy of collective terms. One who does not will bog down in horrendous generalizations. He will assign credit or blame to non-existent entities. He will ignore the very real actions (*individual* actions) going on in the dynamic world around him. He may even speak of "the economy" almost as if it were a big man who plays tennis and eats corn flakes for breakfast.

2. The fallacy of composition. This error also involves individuals. It holds that what is true for one individual will be true for all others.

The example has often been given of one who stands up during a football game. True, he will be able to see better, but if everyone else stands up too, the view of many individual spectators will probably worsen.

A counterfeiter who prints a million dollars will certainly benefit himself (if he doesn't get caught) but if we all become counterfeiters and each print a million dollars, a quite different effect is rather obvious.

Many an economics textbook speaks of the farmer who is better off because he has a bumper crop but may not be better off if every farmer has one. This suggests a widespread recognition of the fallacy of composition, yet it is a fact that the error still abounds in many places.

The good economist neither sees the trees and ignores the forest nor sees the forest and ignores the trees; he is conscious of the entire "picture."

3. The fallacy of "money is wealth." The mercantilists of the 1600s raised this error to the pinnacle of national policy. Always bent upon heaping up hoards of gold and silver, they made war on their neighbors and looted their treasures. If England was richer than France, it was, according to the mercantilists, because England had more precious metals in its possession, which usually meant in the king's coffers.

It was Adam Smith, in *The Wealth*

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of Nations, who exploded this silly notion. A people are prosperous to the extent they possess *goods and services,* not money, Smith declared. All the money in the world—paper or metallic—will still leave one starving if goods and services are not available.

The "money is wealth" error is the affliction of the currency crank. From John Law to John Maynard Keynes, great populations have hyperinflated themselves to ruin in pursuit of this illusion. Even today we hear cries of "we need more money" as the government's monetary authorities crank it out at double digit rates.

The good economist will recognize that money creation is no short-cut to wealth. Only the production of valued goods and services in a market which reflects the consumer's wishes can relieve poverty and promote prosperity.

4. The fallacy of production for its own sake. Although production is essential to consumption, let's not put the proverbial cart before the horse. We produce in order that we may consume, not the other way around.

I enjoy writing and teaching but I enjoy sunning in Acapulco even more. I have labored to produce this piece and to teach its principles in my classes instead of going to Acapulco first because I know that's the only way I'll ever get out of Michigan. Writing and teaching are the *means;* sunning in Acapulco is the *end.*

A free economy is a dynamic economy. It is the site of what the economist Joseph Schumpeter called "creative destruction." New ideas supplant old ideas, new products and methods replace old products and methods, and whole new industries render obsolete old industries.

This occurs because production must constantly change shape to conform with the changing shape of consumer demand. As Henry Hazlitt has written, "it is just as necessary to the health of a dynamic economy that dying industries be allowed to die as that growing industries be allowed to grow."

A bad economist who falls prey to this ancient fallacy is like the fabled pharaoh who thought pyramid-building was healthy in and of itself; or the politician who promotes leaf-raking where there are no leaves to be raked, just to keep people "busy."

It seems that whenever an industry gets in trouble, some people cry that it must be preserved "at all costs." They would pour millions or billions of dollars in subsidies on the industry to prevent the market's verdict from being heard. The bad economist will join the chorus and ignore the deleterious impact that would befall the consumer.

The good economist, on the other hand, does not confuse ends with

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means. He understands that production is important only because consumption is even more so.

Want an example of this fallacy at work? How about the many proposals to prevent consumers from buying Japanese autos in order to "protect" the American auto industry from competition?

5. The fallacy of the "free lunch." The Garden of Eden is a thing of the distant past yet some people (yes, even some economists) occasionally think and act as if economic goods can come with no cost attached. Milton Friedman is one economist who has warned repeatedly, however, that "there is no such thing as a free lunch!"

Every "something for nothing" scheme and most "get rich quick" plans have some element of this fallacy in them. Let there be no mistake about this: if economics is involved, *someone pays!*

An important note here regards government expenditures. The good economist understands that government, by its very nature, cannot give except what it first takes. A "free" park for Midland, Michigan is a park which millions of taxpaying Americans (including Midlanders) actually do pay for.

A friend of mine once told me that all one needs to know about economics is "What is it going to cost and who is going to pay for it?" That little nutshell carries a kernel of advice for the economist: don't be superficial in your thinking!

6. The fallacy of the short run. In a sense, this fallacy is a summary of the previous five.

Some actions seem beneficial in the short run but produce disaster in the long run: drinking excessively, driving fast, spending blindly, and printing money, to name a few. To quote the venerable Henry Hazlitt again, "The bad economist sees only what immediately strikes the eye; the good economist also looks beyond. The bad economist sees only the direct consequences of a proposed course; the good economist looks also at the longer and indirect consequences."

Politicians seeking to win the next election frequently support policies which generate short-run benefits at the expense of future costs. It is a shame that they sometimes carry the endorsement of economists who should know better.

The good economist does not suffer from tunnel vision or shortsightedness. The time span he considers is long and elastic, not short and fixed.

7. The fallacy of economics by coercion. Two hundred years after Adam Smith, some economists still have not learned to apply basic principles of human nature. These economists speak of "increasing output"

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but prescribe the stick rather than the carrot to get the job done.

Humans are social beings who progress if they cooperate with one another. Cooperation implies a climate of freedom for each individual human being to peacefully pursue his own self-interest without fear of reprisal. Put a human in a zoo or in a strait jacket and his creative energies dissipate.

Why did Thomas Edison invent the light bulb? It was not because some planner ordered him to!

Why don't slaves produce great works of art, Swiss watches, or jet airplanes? It's rather obvious, isn't it?

Take a look around the world today and you see the point I am driving at. Compare North Korea with South Korea, Red China with Taiwan or Hong Kong, or East Germany with West Germany.

One would think, with such overwhelming evidence against the record of coercion, that coercion would have few adherents. Yet there are many economists here and abroad who cry for nationalization of industry, wage and price controls, confiscatory taxation, and even outright abolition of private property. One prominent former U.S. senator declared that "what this country needs is an army, navy, and air force in the economy."

There's an old adage which is enjoying new publicity of late. It reads, "If you encourage something, you get more of it; if you discourage something, you get less of it." The good economist realizes that if you want the baker to bake a bigger pie, you don't beat him up and steal his flour.

Well, there you have it—not the final answer to confusion in economics, but at least a start. I for one am convinced that good economics is more than possible. It is imperative, and achieving it begins with the knowledge of what bad economics is all about.

IDEAS ON LIBERTY

A Dangerous Power

THE STATESMAN who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

ADAM SMITH, *The Wealth of Nations*

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Paul L. Poirot

The Past as Prologue

THE people of the United States last November clearly voiced dissatisfaction with the results of the massive political intervention of recent years. But a strong vote of protest does not necessarily signify an understanding of a better alternative.

Since 1946, FEE has been exploring the market alternative to coercive political management of our lives.

Names and places may change—the political leaders, the warring factions, the specific victims of intervention. But the patterns and principles and consequences are much the same. This is the sense in which the past is prologue.

Therefore, it seems appropriate at the beginning of a new political administration to carefully reconsider what some of the outstanding spokesmen for liberty have said earlier about these perennial problems.

The prolonged negotiations for return of the hostages from Iran and other current events in the Middle East, Africa, Latin America and elsewhere call to mind what Dr. Hans Sennholz said in 1957 about "Welfare States at War." So, what better advice may we find today with regard to our foreign policy? If we would be at peace among nations, let us act at home in ways that do not provoke violence.

Much that same question was asked in 1957 by Professor Sylvester Petro, "Do Antitrust Laws Preserve Competition?" And he, too, concluded then, as we must today, that not more laws and controls but more freedom of choice is the appropriate solution.

And once again, at the approach of the April 15 tax deadline, it is appropriate to review the background information shared twenty years ago by John Chamberlain. The statistics cited then concerning the impact of "The Progressive Income Tax" need to be modified by the subsequent decades of aggravated inflation. But, again, the message is clear: unlimited government and unlimited taxation are not the terms and conditions of a humane society.

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Hans F. Sennholz

THE NEW international crises sparked in the Middle East, and the constant danger of another world war, need not surprise the student of contemporary international relations and economic policies. The ideology of socialism and interventionism has swayed our foreign relations, and the policies of Welfare States have destroyed international peace and order.

While throwing the blame for the present crises on the doorsteps of "capitalist colonialism," the Welfare States are battling each other. All parties involved in the Mid-East are either socialist or interventionist nations. Israel is a large army camp crowded by people who are given to socialist ideas; Egypt is an interventionist country with a dictator bent upon leading his nation to socialism; France has a socialist government with controls that leave little room for competitive enterprise; and Britain is floundering between socialism and interventionism. In other words, there is little capitalism, in the sense of competitive private enterprise, in any one of these countries.

Absence of individual freedom and free enterprise makes for economic nationalism and international conflict. By fundamental nature and objective, the Welfare State controls private property and limits individual freedom in order to distribute economic spoils and privileges to pressure groups. The Welfare State is a favor state.

Dr. Hans Sennholz, Professor of Economics at Grove City College, Pennsylvania, has regularly contributed to *The Freeman* and other work of The Foundation for Economic Education in numerous ways.

This article is reprinted from the February 1957 *Freeman* at the time of Nasser's seizure of the Suez Canal.

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Pressure groups of producers expect the government to increase the prices of their products or services, with utter disregard for the economic interests of the vast majority of their own countrymen and of many foreign producers. In most cases of welfare legislation the favored group's foreign competition is either eliminated entirely or severely curtailed. This is economic nationalism, the most important source of international conflict.

Economic Nationalism Creates Conflict

Let us demonstrate how interventionist policies lead to economic nationalism with a few American examples. In order to enhance the price of sugar cane and beets produced by a few thousand American farmers, the federal government not only levies a highly protective sugar tariff, but also imposes severe import quotas. To afford our domestic producers a temporary gain, we partially close our markets to Central American sugar. In other words, we cause domestic prices of sugar to rise and depress foreign prices, subsidizing our sugar farmers at the expense of American consumers and Cuban farmers. This is economic nationalism.

Meanwhile, Soviet Russia takes political and economic advantage of our shortsighted "welfare policies." She buys Cuban sugar at depressed prices, thus appearing as benefactor to our southern neighbors.

In deference to our cattlemen, we prohibit the importation of cheap Argentine beef. That is to say, we favor domestic producers to the detriment of domestic consumers and South American producers. These and similar acts have earned us the hostility of our Central and South American neighbors. Russia, of course, ably utilizes our trade restrictions for her own purchase policies. Her efficient propaganda then interprets our behavior as capitalist imperialism, and her own as a token of communist friendship.

Similar acts of economic nationalism on the part of our federal government include the recent tariff increases on Swiss watches, the import restrictions on foreign dairy products, and many others. In each instance we severely hurt foreign producers in order to "assist" our pressure groups.

West Sets Bad Example

Of course, the other Western powers are guilty of similar policies of economic nationalism. The United States, Britain, and France embarked upon the welfare road to international conflict after Imperial Germany had shown the way. In the 1880's the German government imposed heavy social costs on the German economy. The logical outcome would have been a loss of sales to

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foreign competition, with German unemployment. To avoid these undesired effects, the government created cartels. Behind high walls of protective tariffs these organizations then charged monopoly prices on the domestic market and dumped excess supplies on foreign markets at low prices. This was economic nationalism at its source.

Germany has become the classical example of government omnipotence in economic matters. There is scarcely any restriction on trade that was not practiced and fully developed in Germany. The people in underdeveloped areas, unaware of the meaning of individual liberty and capitalism, have admired this seemingly omnipotent power of the German state and often have endeavored to imitate it.

Britain's economic nationalism dates back to World War I and especially to the Import Duties Act and Ottawa Agreements of 1932. The preferential principle that became the guiding principle of British political action gave "home producers first protection, Commonwealth producers second protection, and foreign producers none at all." Britain imposed substantial duties on most foreign foodstuffs and raw materials in order to grant trade preferences to Commonwealth producers. Consequently, foreign sales in Great Britain declined considerably.

The Churchill government during World War II imposed a multiplicity of restrictions from the armory of socialism. The Labor government then went on to nationalize the "means of exchange," the coal mines, the gas and electricity industries, the iron and steel industries. It vested in a Central Land Board all development rights in land. It did its utmost to eliminate rent, profit, and interest in order to employ the revenue for projects of "national development." In all these acts of seizure of private property, the Labor government showed no hesitancy because of foreign investments. It seized them along with those of its own nationals. All this meant economic harm to foreigners, who watched and learned the lesson in government omnipotence.

Underdeveloped Areas Follow Suit

Can it be surprising, therefore, that governments in underdeveloped areas of the world finally begin to imitate the West's own policies? Can we blame them for feeling free to do what they please provided they enjoy the backing of their own popular majorities? Indeed, they may have learned from us to seize and nationalize private property and arbitrarily to tear up contracts, including their own charters.

Colonel Nasser is a thorough student of Western welfare statism and economic nationalism. He desired revenue for a program of "national

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development." Why should he not seize the Suez Canal Company, this private corporation on Egyptian soil? What does it matter that his government was paid in full for the use of a desert strip before the Canal was built? What of Egyptian signatures to international agreements? What if there were government charters and promises? He enjoys the backing of a popular majority. Does this not make him omnipotent? Does this not lift him above the restraints of moral and ethical laws of human relations?

Can the sovereign state of Egypt be bothered that the private property it seizes happens to be the life line of British Commonwealth trade and controls the flow of Mideastern oil? What does it matter that the well-being of all Europe must deteriorate through his nationalization of the Canal? What other sovereign state considered foreign interests in the realization of its statist objectives? Influenced by such ideas, Colonel Nasser embarked upon his tragic policies of economic nationalism and international conflict.

The next move then was up to those whose property had been seized. Among the victims, the governments of France and Great Britain decided to seize the Canal by force, pending an international conference to discuss the Canal's internationalization. No party involved wants to return the Canal to its lawful owners. Internationalization and control by several governments, however, merely means collectivism and economic nationalism on a super-governmental basis.

What Course Freedom?

The defender of private property and competitive enterprise, observing such an insoluble conflict, is at a loss regarding the question of guilt. Is he to sympathize with the culprit who started the conflict in order to finance various "welfare policies"? Or is he to sympathize with the socialized victims who resort to force, which is evil, in order to alleviate the original evil?

In sharp contrast to the international conflict between socialist governments in this Mid-Eastern affair is the peaceful coexistence of laissez-faire nations, which realize the ideals of personal freedom of choice, private ownership and control of property, and peaceful exchange in a competitive market. Under this concept, the sole function of government is the protection of its own people from domestic peacebreakers and from foreign aggressors. Such a government would wage war only to defend the lives and property of its own citizens. This means that it should not participate in foreign wars that grow out of economic nationalism. For such warfare only destroys and does not protect life and property.

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While an individual peacebreaker can easily be punished and isolated in a penitentiary, a collectivist nation conducting policies of economic nationalism can be disciplined and subjugated only through a full-scale war and subsequent occupation of its territory. To discipline a nation that refuses to embrace the doctrines of freedom and free enterprise is an endless and hopeless task.

A citizen of a free country who goes abroad should know that he travels at his own risk. Crossing the border of his state and entering socialist or interventionist territory is to leave law and order behind. He risks transgressions by the foreign state upon his life, liberty, and property. A businessman who invests his funds in collectivist territory must consider the risks of expropriation, foreign exchange control, confiscatory taxation, and many other "welfare" measures. He is beyond the protection of his capitalist government. He is on his own.

Despite curbs and checks on its power, and its inaction in a world of conflict, a government designed for freedom is a natural leader. The creative power of a free nation by far excels that of socialist or interventionist countries of similar size. And it is productive strength that lends the position of leadership to a country in a world that is always fighting or preparing to fight.

But true leadership that exerts potent influence toward world peace and prosperity springs from a far more important source than material and military might. True leadership grows out of impeccable behavior and moral conduct. A leading nation that lacks these prerequisites can guide the world only to more chaos and conflict.

Above all, such a nation must refrain from any act of economic nationalism. It must not harm any other nation through "welfare" policies of its own. It must adhere to its own design for freedom. To reprimand other nations for policies of economic nationalism while waging economic war upon its own neighbors would be hypocrisy and sanctimony.

Throughout most of the nineteenth century Great Britain was a true world leader. Her famous open-door policy treated Britishers and foreigners alike. The Empire was a vast free-trade area in which the government merely undertook to maintain peace, law, and order. Most civilized nations soon followed suit in removing their trade barriers and adopting the Empire standard of exchange, the gold standard. The British government indeed led the world during the most peaceful century of human history.

A leading nation must also reject the immoral principle that one act of economic nationalism by one government sanctions the nationalistic

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policies of all other governments. This is the principle that crime becomes righteousness if a previous crime has remained unpunished. But this very assumption underlies many prevailing notions concerning foreign affairs.

Things We Can Do

World leadership demands that we should openly judge world events and explain the fallacy of every act of economic nationalism. If a foreign government contemplates or embarks upon economic aggression through "welfare" legislation, we should call attention to the inevitable harm inflicted upon other nations. We need not intervene forcibly, for nations cannot be coerced to peaceful coexistence. Only a change in political and economic outlook can bring this about.

Naturally, we would sign no treaty with a government that has disregarded its own agreements and torn up its own charters. Nor would we assist any government that nationalizes private industries, for then we would be helping to promote collectivism and ultimate destruction. There could be no point in our extending diplomatic recognition to any government that indulges in economic nationalism.

Finally, world leadership requires that we constantly defend the principles of individual liberty and free enterprise. At every opportunity we should call out to the world that only competitive private enterprise can lead to peace and prosperity. We have a glorious history of individual freedom and safety of property—the absence of nationalization and confiscation by an omnipotent state. Our recent excursions toward the Welfare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demonstrate to the warring world that individual liberty is the only durable foundation for peace and prosperity.

If our way is freedom, then other nations on their disastrous roads may someday listen to reason and follow us as all civilized nations followed Great Britain during the nineteenth century. Law, order, and peace may then return once again to a battered world suffering from an absence of individual freedom and free enterprise. ✺

IDEAS ON LIBERTY

W. M. Curtiss

TRADING, when engaged in by individuals, is a peaceful, friendly project. When controlled by governments, it provides opportunity for favoritism, intrigue, and a display of power politics. It cannot lead to other than animosity, suspicion, and unfriendly relations.

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Sylvester Petro

Do Antitrust Laws Preserve Competition?

THE ANTITRUST laws are commonly thought to be the institutions that distinguish the economic system of the United States from the rest of the non-Soviet world. But for these laws, it is said, we should be plagued with cartelization as in Great Britain, Germany, or France. Many believe, in short, that the antitrust laws are responsible for our having a competitive society.

Preserving competition might have been the objective about 1890 when the basic act was passed. But certainly for the past generation the antitrust laws have not functioned to that end. Rather than preserve, they have through questionable interpretation and administration in fact impaired competition, by subsidizing and preserving inefficient competitors.

By competition, I refer to a situation that exists when the basic rules of the free society are observed—when everyone possesses the basic rights of private property and freedom of contract. Competition is not a mode of conduct that anyone has to promote institutionally. It develops naturally and necessarily among persons who are free to pursue their own interests. Whatever one's personal interest or objective may be—businessman, sculptor, or preacher—the consequence of pursuing it puts him in competition with all who share that objective. That being the case, preoccupation with promoting competition is at best a diversion of effort which could have been used to protect private property and free-

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dom of contract. My thesis is that we have erred in the formulation and application of the antitrust laws of the United States.

A List of the Laws

What are these laws? The first is the Sherman Act of 1890. This law makes every contract or combination in restraint of trade and every conspiracy to monopolize the trade or commerce of the United States a misdemeanor.

Next came the Clayton Act in 1914, declaring unlawful specific types of contract, such as a tying agreement or an exclusive sales contract, when the result may be to lessen competition or tend to create a monopoly. The Clayton Act was intended to clarify or make concrete the general proscriptions of the Sherman Act.

Usually included among the antitrust laws is the Federal Trade Commission Act which broadly states that unfair methods of competition shall be subject to prosecution.

Though Fair Trade laws are laws of particular states, they also come under the heading of antitrust laws. All provide that when a contract is made between the seller or manufacturer of certain goods and a retailer, providing for a specific resale price, then all purchasers of these goods with notice of the main contract are bound to observe the price set in that main contract. These state Fair Trade laws all grew out of what I believe to be unfortunate decisions under the Sherman Act prohibiting a resale price maintenance contract between a manufacturer and a retailer.

Though I see no violation of freedom of contract if a retailer is willing to sell at the resale price stipulated by the manufacturer, the Supreme Court thought restraint of trade was involved and held such resale price maintenance contracts unlawful. Conditions in the 1933 depression prompted many states to pass Fair Trade laws, and Congress suitably amended the Sherman Act to validate such state laws. But these laws now go much further than legitimatizing a reasonable contract between a manufacturer and a retailer; they enable that manufacturer and retailer to fix prices for all persons who come into possession of the goods in question. Such binding without consent appears to violate the principle of freedom of contract—a case of having pushed the Sherman Act to reach an anticompetitive result.

The Robinson-Patman Act of 1936 is the last of the antitrust laws worth noting here. This act, in general, provides that the price—including such things as advertising allowances or brokerage fees—for goods of like grade and quality must be the same to all purchasers, subject to these qualifications: (1) A price discrimination is not unlawful if it

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can be demonstrated that it has no tendency to limit competition or create a monopoly. (2) If the seller can demonstrate that his costs of selling are lower to buyer A than to buyer B, then he may charge A a proportionally lower price. (3) A seller may discriminate in favor of buyer A if he can show that he had to lower his price in that instance to meet in good faith the offer of a competing seller. Like the Clayton Act, the Robinson-Patman Act was designed to be specific concerning one of the general objectives of the Sherman Act.

The Northern Securities Case

On the basis of this brief outline of the various antitrust laws, let us proceed to examine how these laws have been interpreted and used. I mentioned earlier that one consequence of antitrust action has been to preserve inefficient competitors to the impairment of competition. In other words, the antitrust laws have been perverted from a supposed charter of economic liberty into a demagogic onslaught against large and successful business with a kind of vote-buying subsidy, not for small business, but for inefficient business.

Both historically and doctrinally this process can be traced to a famous case involving Messrs. Hill and Harriman—the Northern Securities case. Hill and Harriman, after what some people called a titanic financial war, decided that it would be to their advantage if they merged a couple of railroads running along the northern tier of states out West. The railroads were the Great Northern and the Northern Pacific. The United States sued under the Sherman Act, charging that this was a violation of both Sections 1 and 2 of that Act—a combination in restraint of trade, and an attempt to monopolize a certain portion of the trade or commerce in the area of the United States that these railroads covered.

The decision was close. A majority of one held that the holding company violated the antitrust act. Justice Harlan, grandfather of the present Justice Harlan, reasoned for the majority along these lines: In prohibiting combinations in restraint of trade, what the Sherman Act intended was to outlaw any impairment of competition. Though these companies did not compete for 74 per cent of their business, there was an overlap of 26 per cent; and when they decided to merge, that 26 per cent was destroyed. Therefore, there was a restraint of trade within the meaning of the Sherman Act.

Holmes Was Right

Justice Holmes, dissenting, reasoned from the fact that the Act does not say that any reduction in the number of competitors is a misde-

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meanor; it says that a combination in restraint of trade is a misdemeanor. He argued that since the words "in restraint of trade" were used, the Court ought to follow the meaning generally given those words under common law—the classical theory of interpretation. He was right. The assumption is, and has to be—except in the case of deliberate specification to the contrary on the part of Congress—that the words of any statute are used in the sense of existing law. Holmes went into an exhaustive survey of the relevant common law and pointed out that there was nothing whatsoever in its history to imply that such a merger is a restraint of trade.

Holmes further said in effect: The Court must remember that the rule it is making in this case is a rule that must be applied equally to all persons engaged in mergers. If it be said that these two railroads cannot merge because they compete for 26 per cent of their business, one must say that two corner groceries who compete for 26 per cent of their business cannot merge. It would be the same for other persons. Furthermore, by this case the Court is establishing a precedent to the effect that if one of these persons should buy out the other, he is violating the law. Without realizing it, Holmes said, the Court majority is construing the Sherman Act as destructive of one of the leading principles of society in this country, that is the free, inalienable right of voluntary association.

I believe Holmes was right in this case. He was right both as a technical legal analyst and in his forebodings. Establish the premise that voluntary mergers are bad, and you have a basis for challenging normal, common business procedure in an economy based on freedom of contract. This is the daily fare of business and of capital. If a business feels that its affairs may be more rational if it combines with another firm, it merges or acquires assets or stocks of another corporation. And yet, each time this perfectly normal thing is done, the participants are in danger of antitrust prosecution.

One must recognize the real nature of the hidden menace here. The fact is that not every merger can be prosecuted. It is a physical impossibility. A market economy could not function if every such action were prosecuted. However, from the point of view of legal science, the resulting situation is very bad. Instead of having a universal rule of law applicable equally to all members of society in free and open competition, what we have is selective prosecution.

The Political Test

What is the basis of selection? There isn't any legal basis for selection, and if you haven't a legal non-

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arbitrary basis for selection, what is your basis going to be? The answer is perfectly clear. It is going to be political and ideological. And these two things have tended to merge inextricably over the last 40 years or so.

There is a great preoccupation with timing of antitrust prosecutions; suits are brought against mergers whenever the Democrats, or the Republicans, want to make political hay by showing how rough they are on business. Add to the mix the Marxian theory that business is bound inevitably to get bigger and bigger until we are all at the mercy of the exploiting monopolists, and you have two primary qualifications for antitrust prosecution. First of all, it has to be a big business, big enough to scare people. And secondly, the occasion has to be politically propitious.

What is to happen to a country in which success in the market place is to be a signal for prosecution by politicians anxious to curry public favor? It is a serious question, prompted by the situation which prevails today. Danger of antitrust prosecution threatens any firm that manages to grow and to out-produce its competitors.

It would really be a comfort to know that each business was doing its utmost to get as much of the market as it possibly could, that each firm was striving to put out the greatest possible production at the lowest possible cost, that, in short, it was being directed in accordance with the public good. But because of so many interventionist devices, the measuring sticks provided by a free market are no longer available. You can't be sure that a move or a failure to move on the part of a business is dictated by economic considerations in response to the desires of the people.

Prosecutions for Price Fixing

Further insight into the absurdities and frustrations of the antitrust laws is afforded by review of the prosecutions under the Sherman Act for price fixing. The famous Morton Salt case dealt with that issue. And there have been a great many others—perhaps 30 or 40 before the Supreme Court. But what on earth can be the consequence of a judgment that a price-fixing agreement is unlawful? What can anyone do about it if 20 firms have agreed to charge a certain price for a product? Assuming that it is a homogeneous product, how can 20 different firms be expected to sell it at 20 different prices? If A charges 98 cents, B a dollar, and Z $1.26, how is Z to gain a sale?

The point is that such prosecutions are nothing but ceremonial political promotions of the party line: "Watch those businessmen!" We are great at berating the businessman

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for doing what is as natural to him as breathing. The function of the market is to find the right price, to bring competing goods toward the same price, and to screen out those producers who can't meet the price.

The Cement Institute case illustrates the point. All over the country, cement manufacturers were submitting bids that were identical to five decimal places; and the Supreme Court thought this was inherently incredible without some evil conspiracy. But if this seems incredible, try to sell cement at as much as a fraction of a cent higher than competitors are charging. When cement prices begin showing variations, it will be time to look for collusion and conspiracy.

The Law Is Guilty

So we find that the Sherman Act itself, the basic antitrust law, has been and is being used, not to promote and maintain competition, but to discourage the abler firms from operating to the limit of their abilities. Add to this the Fair Trade and the Robinson-Patman designs to handicap the larger more efficient merchandisers, and there is no escaping the conclusion that the so-called antitrust laws are in fact anticompetitive and antisocial. They are pushing toward a rigid, inflexible, industrial structure which interferes with the free play of market forces.

Why the Market Works

I have already mentioned some important requirements for the functioning of a free society—for the free play of market forces. The right to private property is one. Freedom of contract is another. Beyond these is a need for better understanding of the market process—more faith in it and less fear of it.

The market works because of man's desire to make a profit, to get more out than he puts in. Capital formation and use rest on this premise. People act in order to better themselves, increase their profits, decrease their losses. And the best opportunity for profit lies in the production of things others want—in service to others. This means that the profit motive is morally as well as economically sound.

The free play of market forces also calls for freedom to trade. Free trade policies are the most effective and successful of all possible antitrust actions. Free trade is the best kind of curb on all forms of government intervention, including subsidies to farmers, monetary tricks, or any other interference you could name. One of the grim features of our day is the great preoccupation with international peace and harmony while at the same time we have the erection of all sorts of trade barriers.

On the domestic front we glory in the productive accomplishments of the industrial revolution and freely

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acknowledge the advantages of large scale mass production. But we seem bound to try to stop the spreading of such advantages when it comes to distribution and retailing of these goods and services. Our politicians count noses and find more small retailers than chain store operators. So they enact Fair Trade laws and Robinson-Patman acts deliberately designed as barriers to the development of mass distribution methods which could mean better living for all as consumers. Perhaps this simply reflects a general fear of bigness in business—a feeling that the greater the number of competitors, the better.

Exclusion by Force

A free competitive market is not a condition which requires for its existence large numbers of producers. It only requires freedom on the part of all people to produce if and when they wish. If the unlikely situation should exist that in a certain line of production a single firm could most economically satisfy the whole market, then, of course, you would have a condition which might be called monopoly. But this is not the aspect of monopoly that people fear. What really disturbs people about monopoly is not that a single person or firm has control over a commodity but that force, compulsion, or special privilege has been used to keep other people out.

Some history is useful here. Monopoly became a problem in the Anglo-American legal system owing to its origin. Monopoly originated in crown grants to certain people of exclusive privileges maintained by the force of government. Queen Elizabeth granted a monopoly in salt, playing cards, and a number of other things. She did this only because she was dissatisfied with the fact that Parliament controlled the purse strings in England. Parliament had insisted on the exclusive power to tax, but Queen Elizabeth had certain ends and aims of her own, and the money needed to attain them came from the persons or groups to whom monopoly powers were granted.

Why Monopoly Is Wrong

It's very plain that this situation has nothing to do with the free market, which grants no exclusive franchise. But the market does not preclude a monopoly. In fact, monopoly in the purely descriptive sense and the right of private property are the same thing. Each of us is a monopolist. We are in exclusive control of our person and all that we legitimately create. If we legitimately create the best and most efficient organization, so productive and so efficient that no one else can compete, we have a monopoly in that descriptive sense. But there is no social harm done as long as everyone else

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has an equal right to get into production. There can't be any social harm because the social interest lies in the most efficient production of goods. Monopoly in this sense means only that society has achieved that end. One person, one firm, in a free competitive market, has proved to be more efficient than any other. Anyone else is free to produce, if he thinks he can compete.

We have a pretty good example of that sort of thing in the automobile industry in this country. The industry operates in as free a market as one can have in this imperfect market economy. Unlike some other industries, this one is not plagued by an overweeningly jealous attitude toward patents. Anyone can get into it. But more are getting out than getting in. Is something drastically wrong in that industry in the sense that a social harm is being done? It seems to me, if you are fair about it, you would have to say that the big three in the automotive industry are simply better public servants in this line than anyone else.

There's quite a difference between monopoly in the descriptive sense of being the only producer, and in the exploitative sense of using force or state aid to exclude competition. The latter is something that free men should fear. And they should know that the government itself is apt to be the culprit behind genuinely antisocial monopoly.

A Useful Antitrust Action to Curb Collusion

I want to make clear that one phase of antitrust policy is in my opinion of real social utility. That is the phase concerned with secondary boycotts and other predatory oppressive practices which I consider harmful interferences with the free market. Let us assume that 30 or 40 retailers, with a common supplier, have an arrangement to avoid competing and to split up territories. Along comes an interloper, a true competitor, who wants to buy from the same supplier. If the other retailers then threaten to quit buying unless the supplier refuses to deal with the interloper, they are held to be in violation of the antitrust laws—and I think rightly so.

Though the market eventually would rectify such a situation, substantial harm could be done to the interloper in the interim. Also, such collusion might lead to a generally cartelized economy, to everyone's detriment. So I have no objections to antitrust laws as a curb on secondary boycotts and other oppressive action, though I'd prefer that such abusive practices be subject to prosecution under common law rather than special statute law.

Actually, secondary boycotts are rarely used by businessmen, the most flagrant offenders being the trade unions. However, the unions seem to be immune to prosecution under

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that single phase of antitrust policy that could be socially useful.

A Positive Program

If I were responsible for preserving competition in the United States, I should not turn to the antitrust laws for help. The common law affords all the legal action needed, and its great merit is that people in significantly similar legal circumstances have to be treated the same way. Politics are excluded.

A long step toward preserving or restoring competition in this country could be taken by abolition of the discriminatory, anticapitalistic, progressive income tax, which skims off the cream of the risk capital—takes the ammunition away from the competitors. They can't compete without ammunition, any more than boxers can perform with their hands tied behind their backs. So my platform would include a plank for repeal of the discriminatory tax laws.

Another plank in my platform to preserve competition in the United States would involve repeal of the laws which have granted so many special privileges and exemptions to labor unions and other pressure groups. In this, I take comfort from the fact that the greatest of all legal scholars, Sir Henry Maine, drew the same conclusion—an elaborate intricate code of laws is a sign, not of a sophisticated society, but of a primitive society. English law, until toward the end of the eighteenth century, was characterized by a practically solid network of laws regulating the most intimate affairs, especially when they were economic affairs. There were laws fixing the amount of flour in bread. A wheelwright couldn't be a wainwright. There were laws against forestalling, engrossing, and regrating, and so on, and on and on. Someone remarked that forward-looking men toward the end of the eighteenth century and the beginning of the nineteenth century were spending most of their time wiping laws off the books and, as you know, the impetus toward that very helpful form of human conduct was supplied by laissez faire theory.

All people interested in having a free society, I think, should be concerned with spreading ideas of freedom; let the actual, detailed measures take care of themselves, as they inevitably will. The ideas have to come first. The most important thing to a society is that its idea factories are really well run. The scholars, writers, and philosophers of a society have to be good or there is really little hope. How does one bring about a change in the idea factories? I have no answer except that hard one of slow self-discipline, more rigorous and objective pursuit of truth; all the things that take forever. This is mankind's eternal task.

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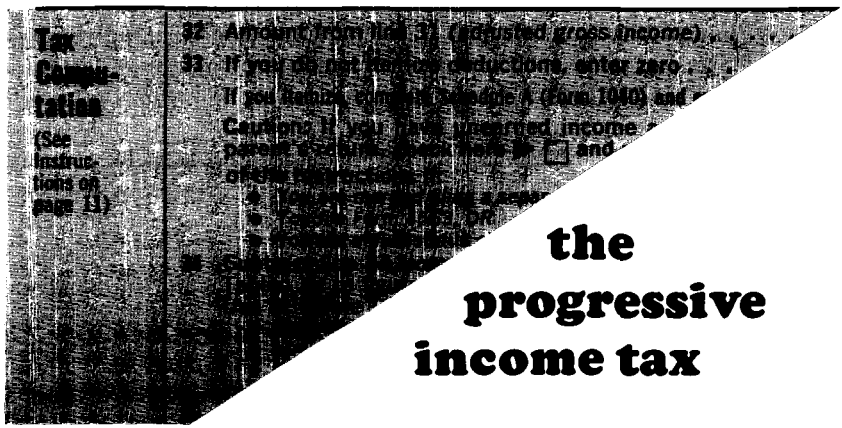
John Chamberlain



EXPENDITURES, says Parkinson in his famous Law, always rise to meet income.

It is too bad that Parkinson, that canny man, wasn't around way back in 1913 when the progressive income tax was first adopted in America. If he had been on the scene, he might have shocked at least a few people into sobriety by observing that his Law, as it applies to government, must be phrased this way: "The expenditures of the State always rise to meet *potential* income." In other words, the politico, with the people's total earnings at his potential legal disposal, will inevitably move toward taking it all. In return for votes the politico will, of course, hand most of it back as welfare—or as legalized patronage. But even in handing it back there will be strings attached to it: following Galbraith, the politico will tell the people how the money is to be spent.

Looking back on 1913, one can only be amazed at the incredible innocence of that generation of Americans. When the Sixteenth (the progressive income tax) Amendment to the Constitution was formally ratified, the Congress responded by adding a seemingly quite inoffensive federal income tax rider to the Underwood Tariff Act. The rider called for rates running up to a maximum of 7 per cent on the last bracket of a $200,000-a-year income.

Although the principle of the income tax had been subject to a long controversy (it had been declared unconstitutional by the Supreme

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This article, reprinted from the November 1961 *Freeman*, will help regular readers of "A Reviewer's Notebook" better appreciate John Chamberlain's firm grasp of the basic principles of freedom.

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Court in 1894), the legislators took it lightly. When famed attorney Joseph Choate remarked ominously that, in time, the tax could go to 50 per cent or even higher, Senator William E. Borah arose and shook his massive head. The very idea that anyone could ever be taxed at a 50 per cent rate seemed silly to the Progressive Republican from Idaho. Hurling his rhetoric directly at Choate, Borah asked: "Whose equity, sense of fairness, of justice . . . does he question?"

As things have turned out, Joseph Choate was altogether too moderate a prophet: today [1961] the top income tax rate is 91 per cent, and the 50 per cent rate begins at the $16,000-a-year level. In 1913 dollars, $16,000 a year is worth a mere $5,350. During World War I the tax took its first swift leap upward, only to fall back after the Peace of Versailles. Ever since the revenue act of 1934 first turned the full fury of a depression-ridden generation on anyone and everyone with an income of $25,000 a year or more, the rates at the top have been deadly.

Just to Keep Pace

The change in the tax temperature over the span of the past thirty years can be most graphically perceived if we consider what a Babe Ruth would have to be paid today to give him a take-home purchasing power comparable to his 1931 earnings. Out of a salary of $80,000 in 1931, Babe Ruth had $68,535 after federal income taxes. If "The Babe" were alive in 1961, he would need a salary of about $960,000 to give him as much purchasing power, after inflation and other federal income taxes, as he had in 1931.

Long before Joseph Choate voiced his prophecy, English economists were taking a dim view of what might happen under progressive taxation. Said Ramsay McCulloch in 1845: "The moment you abandon . . . the cardinal principle of exacting from all individuals the same proportion of their income or their property, you are at sea without rudder or compass and there is no amount of injustice or folly you may not commit." And he continued: "The reasons that made the step be taken in the first instance, backed as they are sure to be by agitation and clamor, will impel you forwards. . . . Why not take 50 per cent from the man of two thousand pounds a year, and confiscate all the higher class of incomes before you tax the lower? . . . . Graduation is not an evil to be paltered with. . . . The savages described by Montesquieu, who to get at the fruit cut down the tree, are about as good financiers as the advocates of this sort of taxes."

It was only three years after McCulloch's warning that Karl Marx and Frederick Engels, in the *Communist Manifesto,* advocated a heavy

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progressive tax as a means of despoiling the "bourgeoisie" and softening middleclass society up for the dictatorshp of the proletariat. Walter Bagehot, editor of the London *Economist,* feared that the Marxians would prevail: he predicted that the progressive tax, in combination with the principle of universal suffrage, would result not only in the destruction of the rich but in the very dissipation of the productive capital which gives society (the poor included) its margins of comfort.

The predictions of McCulloch and Bagehot have not yet come to pass in their ultimate direness; maybe they failed to reckon with the adaptability of man. Psychologically speaking, there is obviously some point where the progressive tax must recoil upon itself, destroying the base from which it might hope to achieve a maximum of "take." Just where the point is we cannot tell: there is no way of measuring businesses that are unborn, or energies and creative enthusiasms that simply fail to well up. But when a progressive tax dampens the impulse to generate income, then the tax base itself must narrow and diminishing returns set in.

A Theory of Justice

To make a tax acceptable, it must be levied in accordance with a theory of justice that is an article of faith with the majority. When justice, or the appearance of justice, fails, revolt is inevitable: the Puritan Revolution in England, the American Revolution of 1776, and the French Revolution of 1789 are all cases in point. The theory of justice behind the progressive income tax is that it imposes "equality of sacrifice"—and as long as this is believed, the tax will be palatable to a majority. "Equality of sacrifice" is the democratic way.

Time was when the progressive tax would not have been accepted as equitable even by a majority of the poor. Traditional equity required that taxes should be levied proportionately, not progressively. This was in accordance with the belief that a man's property, or his income, was an index of deserving achievement, or of value contributed in the market place to society. True, some men inherited their property or incomes—but that was something to be handled or regulated under laws of inheritance. In any case the erosion of time could be counted on to take care of the inefficient use of inherited fortune—"shirtsleeves to shirtsleeves in three generations" expressed the common wisdom in this matter of luck in the choice of one's parents.

Under the proportional theory of tax equity, a rich man would pay more taxes than a poor man, naturally. But every dollar of assessed property value, or of income, or of

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spending, would be taxed in equal amount, at flat percentage rates. Dollars would be treated equally, no matter who owned them, or spent them. Thus the citizens would be accorded the "equal protection of the laws"—and their "privileges and immunities" would be equal, as provided for in the United States Constitution. Any other way of treating taxation was regarded as discriminatory, or as putting penalties on ability, ambition, and success.

It was Marxian socialism—"From each according to his abilities, to each according to his needs"—which fathered the great attack on proportional tax equity: a "heavy graduated income tax" is a salient feature of the *Communist Manifesto* of 1848. But the Marxians would have made little headway if non-Marxian economists had not come unwittingly to their support with the theory that "it is not equal to treat unequals equally." In cases of charity, this is undoubtedly true, but no comprehensive legal system can be reared on a rule which begins by regarding everybody as an exception.

The Value of the Last Dollar

To rationalize their inapposite view, these economists sought the support of "marginal utility" analysis; they argued that the "utility" of the rich man's "last dollar of income" must be considerably less to him than the utility of the poor man's last dollar to the poor man. To take *more* of what the rich man valued *less* was, to these economists, a way of achieving tax justice. They based their theory of tax gradation from bracket to bracket on the old pleasure-pain calculus of the English utilitarian philosophers: obviously, so they said, there must be more pleasure and pain involved in satisfying (or in failing to satisfy) basic hungers than in buying a Rolls-Royce or subscribing for a seasonal box at the opera. By taking more of the supposedly less-valued "Rolls-Royce dollar" than of the highly-valued bread-and-beer dollar, "equality of sacrifice" could theoretically be translated into a law which would satisfy the ethical sense of the majority.

Superficially considered, there is a certain amount of rough practical justice in this way of regarding the "last dollars"—or the upper brackets—of a man's income. If it is merely a question of satisfying the basic hungers for food, shelter, clothing, and the minimal cultural decencies, "last dollars" undoubtedly mean much; they may even mean life and death. But this is an argument for a basic exemption from taxation, not for levying progressively steeper surtaxes in the middle and upper brackets.

Beyond a certain subsistence and cultural minimum, the idea that "last dollars" can be rated in accordance

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with a scale of "marginal utility" to the individual becomes a fiction. Since men differ by inherited temperament, by circumstance, by ambition, and by training, every living human being values his "last dollars" differently. If intensity of avarice could be measured, the French peasant clutching his franc of profit and Hetty Green clutching her millions might come out at the same place. A Huckleberry Finn—or an ascetic St. Simeon Stylites seated on his column—will care little enough even for a "first dollar," whereas a Major Armstrong, intent on raising the money needed to protect his patent rights to a radio amplifier, may desperately value—and need—his "last million."

Who is to say whether the "last dollar" of a poor man taking a flyer on the "daily double" at the race track is worth more to the individual than the "last dollar" of a biochemist who wishes to buy a year's leisure to experiment with rare bacterial cultures? Who is to say whether the last dollar spent by a housewife on a new Easter hat is worth more to its owner than the last dollar thrown into the kitty by a Rockefeller to plant Easter lilies or tulips at Rockefeller Center?

"Equality of Sacrifice"

Money has such protean uses that its personal valuation can take a thousand-and-one turns. It can command leisure, freedom, security, adventure, education, veneration, esthetic gratification, and appendicitis operations—plus the whole economic gamut of ordinary goods and services. It can command both power and the protection of the individual against power. As a cynical wit has put it, though you may be able in some instances to buy happiness with money, you can't buy money with happiness—which could conceivably give the "last dollar" of income a "one-up" position even to a man in love.

To make the attempt to force "equality of sacrifice" by taking *more* of what the well-to-do man presumptively values *less* is, then, to pursue a chimera into a quagmire. The utility of a dollar—*any* dollar—to an individual is a purely subjective phenomenon, and cannot be measured in any known unit. One cannot multiply quantities by qualities and get a mathematically respectable answer, as Sir Isaac Newton observed long ago. To suppose that anybody values his "last dollars" less than anybody else is to substitute mind reading (and emotion reading) for objective measurement. It puts a self-righteous and wholly tyrannical power into the hands of a majority, or into the hands of the politicians who represent what they think is the majority.

As for the value of an individual's last dollar to society, this depends

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wholly on the uses to which it is put. It is the responsibility, the ingenuity, and the creativity of the individual which establishes the social "marginal utility" of the last dollar of income. But here, also, utility cannot be expressed in a priori terms, by taxing a man because he *might* waste his tax dollars.

The pleasure-pain calculus is wholly impotent when it comes to comparing a poor man's ticket to the dog races (theoretically of little use to society) and a rich man's investment in a job-creating business. Or, for that matter, the poor man's contribution to the Red Cross and the rich man's evening dissipation at the Copacabana. Even where the comparisons are freighted with seemingly unarguable moral distinctions, there are quicksands within quicksands. A night club might support a struggling musician while he is composing a great rhapsody, and a dog track could conceivably lead to far-reaching discoveries in canine genetics. On the other hand, charity—or a newly-created industry—may result in prodigious waste.

Used in price analysis, marginal utility has something objective to work on: the amount of goods which clear the market when the price is either raised or lowered. By utilizing theoretical supply-and-demand curves, one can even make reasonable guesses about the future. But marginal utility, which is of no use whatsoever in judging the intensity of personal feelings, cannot legitimately be used to give society a right to political dictation of the social uses of "last dollars." To tax possible investment capital on the theory that "society," as represented by government, might invest it better is to indulge in a wild guess. Measurement (via a tax) cannot be undertaken *before* the dollars are spent. This is why men have traditionally been left the use of their dollars to spend them or to invest them as they please. When the market decides, there is no uncertainty about the comparative rating of men's desires.

An Equality of Misery

Equality is an idea that leads inevitably to contradictions, depending on the values of the individual who advocates it. One can begin with the theory that everyone should start with the same advantages in life: such advantages as equality before God and the law, equal opportunity for education, and a basic subsistence that will keep one from being warped or stunted during the growing period. This is an idea of equality that is firmly imbedded in the American dream; it has also been roughly attainable in American practice. Granted this equality, however, people who are clever, able, persistent, or merely persuasive must soon outdistance the rest. As a peo-

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ple we have accepted this, traditionally, as being eminently fair.

It does not, however, result in an equalitarian society. Does true equality consist, then, of pulling everyone who has exceptional abilities back into the pack at stated intervals? Does it entail the consistent discouragement of excellence by means of periodic cancellation or retraction of rewards? If it does, then mankind must automatically be deprived of the benefits normally accruing to it from the natural variation of human beings. With the fostering of a widespread "what's the use" attitude, new inventions, new qualitative changes, new theories, ideas, and fashions, must falter; the standard of living must recede; the birth rate must drop; and the equality thus achieved will be an equality of misery.

Periodic Redistribution, Motivated by Envy

Insofar as it results in "equality," the progressive income tax is a spawn of the second idea. It attempts to pull the exceptional at least part way back into the pack by canceling a good part of the previous year's gain every April 15. Since it is not a tax on capital, the progressive income tax cannot do the whole job of diffusing a more or less complete equalitarianism throughout society. But it keeps newcomers from amassing capital on their own out of savings—and, taken in conjunction with stiff inheritance taxes, it could carry out a revolutionary job of leveling within the space of a few generations.

How "moral" is this approach to equality via the tax collector? If the end to be achieved were a benevolent brotherhood, then there might be something to be said for it. But the means are neither relevant to nor consistent with such an end. Equality via the tax collector operates through the social motive of envy, not love or charity. It begins with the politics of "soak the rich." Soon the definition of "rich" is expanded to include the middle classes. And it all ends with the exaltation of the bureaucrat, who is in charge of spending the spoils. Minorities are inevitably put at the mercy of majorities—and everybody is at the mercy of the politicos, who get first whack at the resources of the state.

A Psychology of Depredation

Instead of fostering brotherhood, then, the progressive income tax introduces a psychology of depredation into society. Pressure groups everywhere go for their share of the spoils. The arid states want big dams—at the expense, not of willing investors, but of the common people who have chosen to stay in greener, though more densely populated, New Jersey and Connecticut. Everyone has his pet scheme for spending other

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people's money, and empires grow in Washington as the politicos cater to the schemers. As money income is taxed away, there is a tremendous competition to get income in terms of social services (untaxed). The state is called upon to provide more money for schools, medical services, pensions, what-not. Producers, who have their own corporate income taxes to worry about, struggle for special tax write-offs; every different productive group, from agriculture to labor, wants exemptions. The result is an intense materialism which is rendered all the more ugly because it puts guns into the hands of any group which thinks it has a chance of transforming a minority into a majority by the mere offer of a trade in votes.

The depredation psychology has its reflex within voluntary associations which are compelled to sly expedients in order to retain assets, earning capacity, or mere utility. Businesses are diverted from thinking about productivity; decisions are often made with a primary eye to "tax advantage."

Capital Gains as a Way Out

Take the case of a small sponge rubber company in Connecticut's Naugatuck Valley, for example. It has been built up by hard-working partners. But the partners find their only way of cashing in on their creation in their old age is via capital gains. So they sell their business to a big Akron, Ohio, rubber company, with their sons receiving stock as their inheritance instead of a going share in a family business. A somewhat similar instance of a small business firm disappearing into the maw of a larger, forms the substance of Cameron Hawley's novel, *Cash McCall.*

Many a small businessman is tempted to sell out for capital gains rather then continue to work for an annual income. The result is that big companies grow as small family businesses disappear. In the big companies salaries are paid partly in cash, partly in "future income" via such things as pension rights, commitments to retainers for "advisory aid" in the years after retirement, and stock options leading to capital gains. Expense allowances go up as entertainment, housing, car use, medical examinations, and vacations-cum-business trips are all allocated to "business costs." For its own part, labor devotes a great deal of its organizational energy into fighting for "fringe benefits" that will not appear on the ordinary tax forms as income. "Fringe benefits" result in an uneven diffusion of gains among the workers, for, while everybody foregoes a possible raise in order that the company may finance a fringe benefit, not everybody collects on the benefit to the extent of his due.

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Undistributed Profits

As a defensive reflex against the depredation psychology, high individual tax rates result in the retention of earnings by corporations. The proof of this is objective: undistributed profits made up some 30 per cent of corporate profits after tax in 1929 and some 50 per cent in 1959. By leaving potential dividend money in a business, the investor gets a capital appreciation that is taxed at 25 per cent of income limit if he chooses to sell his stock. In addition to helping the shareholder stay out of a higher tax bracket, this also provides a method whereby ownership can duck the effects of double taxation of dividend money. While it may be immaterial to a given company that it chooses to finance its future growth out of retained earnings (or undistributed profits) instead of going into the market for share capital, this method of financing robs the investor of his flexibility of decision. The investor sticks, perforce, to his "old company" instead of surveying the field for new options. And the "old company" may do the diversifying which the investor used to do for himself; it may branch out into unrelated lines, which can have good or bad effects depending on the ability of management to handle diversification within a single corporate set-up. In any event, business must pay some cost for being tax-oriented, not production-oriented. Some efficiency is lost if only because tax lawyers come high.

Tax Avoidance

If the need to defend against a depredation psychology has its subtle effects on voluntary associations, it also puts a premium on slyness as practiced by the individual taxpayer. A well-known book company advertises a "Federal Tax Course" and offers a special report guaranteed to show what deductions can legally be claimed for business expenses such as transportation, entertainment, lodging, gifts, theatre tickets, club dues, and bills, and "your wife's expenses if she travels with you." Another special report is advertised as showing how "men in the $20,000 to $100,000 class can virtually cut their tax in two" by dividing income among the family. Income can be transferred to minor children; property used in a business can be turned over to a member of the family and leased back (at a rent deduction); income-producing property can be sold from one member of a family to another to gain a depreciation advantage; and so on. All of this comes under the heading of "tax avoidance," which is perfectly legal. Nevertheless, a great deal of energy is necessarily diverted into the business of defending oneself against the government—a loss of energy which might

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be put to far more productive purposes, with society the richer for it all around.

Tax-Exempt Securities

Finally, to protect against depredation psychology, the rich seek refuge in tax-exempt bonds. Thus potential risk capital disappears into the sink of dead-horse debt. This is the ultimate commentary on progressively taxing "last dollars." Ironically, it would take a "degressive tax," i.e., one that taxed "last dollars" least, in order to bring money from tax exempts back into the pool of risk money that should be available to the man with a new idea.

The late Professor Henry Simons of the University of Chicago economics faculty argued that the case for drastic progressions in income taxation "must be rested on the case against inequality." If the human race has a natural interest in human variation, then the case for progressive taxation is indeed "uneasy" (to use the phrase of Walter Blum and Harry Kalven, Jr.). But if equality (in the leveling sense) can by any stretch of the imagination be considered the touchstone of the good society, then the progressive tax falls into place as a relevant means to the achievement of social justice. But it is only *one* relevant means, and if it is left to operate alone it will not achieve its leveling end.

For better or worse, the progressive income tax in America has obviously not achieved an equalitarian result. This does not mean, however, that it should be written off as socially innocuous. Instead of introducing a leveling principle into society, it has resulted in some strange distortions of the social pyramid. While it has not produced equality, it has resulted in a very practical denial of the old American ideal of "equality of opportunity."

The reason for this is that it tends to stratify classes as they are. Since it is a tax on income, not a capital levy, it leaves old ownership intact without encouraging new—or additional ownership. The rich (within inheritance tax limits) tend to keep their fortunes. But Joe Doakes can hardly aspire to amassing a fortune—or even a sizable nest egg—on his own if he attempts to do it out of saving for investment purposes. (The fact that millions have risen into "middle income status" since the time of the income tax amendment has been due to the fecundity of American production, with its fantastically efficient machine development, not to any "redistribution" effected by the tax.)

The System Favors Present Owners of Large Fortunes

What the progressive income tax cannot do is to cut down the money-mobility of the rich. A man with a fortune can protect his equity by

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moving money about on the board of opportunity. He can invest his money in supermarkets in Venezuela, or buy oil rights in Western Canada, or become a partner in swiftly growing industries such as plastics, electronics, or aviation. Thus he can circumvent the ravages of inflation and expand his fortune via capital gains.

But while the well-to-do have a continuing access to opportunity (which they can also open to their sons by making them partners in expansive situations), the middle classes are denied the chance of building fortunes in the first instance to protect. Under progressive taxation an Averell Harriman, a Joseph P. Kennedy, a John Hay Whitney can keep their financial status (and even become ambassadors to the Court of St. James). But the deck is stacked against the emergence in our times of new ambassadorial material. During the past generation the "middle condition of man" has been ground between the upper and nether millstones of inflation and steeply rising progressive tax rates. Reckoned in terms of "disposable income" in "1939 dollars," the purchasing power of the $18,000-a-year man in 1961 is no more than that of the $6,000-a-year-man of 1935. If the middle income man has been committed to insurance payments, his equity in saving has been cut in half. But the rich, who have invested in the insurance companies, have preserved their equities intact.

Soak the Middle Class, Penalize the Erratic Earner

The fairness of the tax even within its own "ability to pay" rationalization is entirely questionable. The tax exempts the poor—or taxes them at such a low rate of progression that it is negligible. And, as we have seen, it tends to exempt the rich, who have ways of compensating for loss of dividends by the capital appreciation route. It is the people in the middle income brackets who do most of the paying. Thus what started as "soak the rich" has become "soak the middle class."

Moreover, the tax bears down with peculiar cruelty on the erratic earner, who may be compensated in a single high-tax spurt for years of patient effort. An author or a playwright may struggle for a decade to master a technique (or a subject) and then produce a single best-seller. But the gains for which the years have been preparing will not be commensurate with the effort and dedication involved. A doctor spends his young manhood in medical school, internship, and building a practice: then, relatively late in life, his income may hit the stratosphere without leaving him much after taxes for his old age. To gain crude equity for himself, the doctor will, in turn, grade his fees on an "ability to pay"

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basis, taking more from the rich and less from the poor.

Then there is the case of the public performer whose income is clearly related to the state of his muscular reflexes, or the youthfulness of his (or her) face and figure. Ballplayers are lucky to last in the big leagues (and the big money) after the age of 33 or 34. A Joe Louis may earn millions in a brief heyday as heavyweight champion—and then spend his middle age in irretrievable hock to the government for back taxes for the mere sin of having depended on altogether-too-sanguine income tax accountants. A Sugar Ray Robinson may be forced back into the prize ring after retirement to recoup a fortune which will prove to be just another mirage when the tax collector is satisfied. In the case of the professional tennis player, a single year in the big money is the most to which the average-good-amateur-turned-pro can aspire. Once the crowds have seen him on one round of the circuit, he is through.

As for movie stars and Broadway performers, they may be able to make the jump from ingenue charm or youthful agility to middle-age character parts. But not every starlet becomes a continuing star—and in such an event the high earnings of youth will never afford the basis for a middle-age income.

Since the onerousness of the present progressive tax rates are becoming obvious to too many voters, a trade has been proposed: let the many present legal "loopholes" (big expense accounts, the oil depletion allowance, and so on) be closed in return for an across-the-board cut in the progressive rates. Vain delusion! The closing of the "loopholes" will mean more income for government. But (to invoke Parkinson once more), expenditures rise to meet income. So why should the state give any of that "loophole" money back in the form of a tax cut? The "loophole" money will support lots of bureaucratic job holders—and as Parkinson's Other Law says, work expands to fill up the time of those available to do it.

No, we as a people are on the rack for having accepted an unjust Constitutional Amendment in the first place. We will remain right where we are until a limitation is placed on the principle of the progressive income tax itself. ●

IDEAS ON LIBERTY

F. A. Hayek

IF a reasonable system of taxation is to be achieved, people must recognize as a principle that the majority which determines what the total amount of taxation should be must also bear it at the maximum rate.

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Dwight R. Lee

Labor Unions Aggravate Inflation by Lowering Wages

It is commonly believed that labor unions generate inflation by increasing the wages of workers. This is not the case. Labor union activities do aggravate inflation, but they do it by reducing the real wages received by workers, not by increasing them. An understanding of why this is true requires, first of all, a brief explanation of the cause of inflation.

We are currently experiencing inflation for the same reason that any economy, at any time, has ever experienced inflation: the money supply has been growing more rapidly than the growth in production. Assume, for example, that the production of goods remained the same but the number of dollars we have to spend on these goods doubled. We would all be willing to spend approximately twice as much on each good as before. But this means that the price of goods would also double, as would the general price level. Increase the growth in the money supply and reduce the growth in productivity and inflation will result.

Since monetary growth is subject to much larger changes than productivity growth, it is a rapidly growing money supply that explains most of our inflation. It is the federal government that controls the money supply, so the major blame for inflation can be placed on government activity. Labor unions aggravate inflation however, by engaging in practices which impair economic productivity.

It is only by imposing restrictions on the economy which reduce productivity that a union can provide

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an economic benefit to its members. In a free and open labor market a worker will be able to receive a wage that reflects his productivity and which is no higher than what comparably skilled workers are receiving elsewhere in the economy. A higher wage would attract additional workers thus driving the wage back down to the competitive level. Of course, this competitive process increases the productivity of the economy by directing workers into those employments where their contribution is greatest. And it is productivity that has increased over time in response to the incentives and direction provided by competitive markets that, at least until recently, made U. S. workers the best paid in the world.

But union leaders cannot attract dues-paying members by getting them a wage rate that they could earn without a union. And the only way unions can provide their members with higher than competitive wages in some occupations is to restrict the competition from nonunion workers. While this may increase union wages in the short run, it does so at the expense of lower wages for other workers. Higher union wages and prices in one sector of the economy are effectively offset by lower wages and prices elsewhere in the economy.

In order to realize this relative wage advantage for its members, organized labor has consistently fought for legislation which reduces, if not eliminates, the opportunity for nonunion workers to secure jobs that would otherwise be available to them. Organized labor's struggle for the closed shop (only union members can be employed) and their bitter opposition to state right-to-work laws (which eliminate union membership as a requirement for employment) are clear examples of union attempts to protect their workers against competition. Other examples are union efforts to restrict imports and obtain legislation restricting the movement of large employers from the unionized North-East to the less unionized Sun Belt states.

Competition Reduced

To the extent that organized labor has been successful in these restrictive activities, the economic competition and mobility that is a major source of increased productivity has been reduced. And strong evidence of the success of unions in protecting their members against productive competition is seen in the featherbedding practices they are able to impose, practices which could never survive open competition. Unions have long inflicted costly featherbedding practices on the railroads, with the requirement that firemen remain on diesel locomotives being a well-known example. The build-

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ing, theatrical and oceanshipping industries, as well as many others, also suffer from union featherbedding requirements.

A typical example is that of a construction job which required the use of several very small gas-powered generators. Because of union requirements, each generator had to be attended by an operating engineer, an electrician, and a pipefitter. The engineer had to start the engine a few times each day, the electrician pushed wire plugs in the generator's sockets if they were moved, and the pipefitter was there, "just in case." Obviously, such practices further the negative effect organized labor has on our economy's productivity.

It is this impact on productivity that explains why the overall effect of organized labor is to reduce real wages. Productivity is the source of all income, including wages. Real wages depend on the wage earner's ability to buy goods and services. It cannot be purchased unless it is first produced. Furthermore, for a given rate of monetary growth, the lower our productivity the higher the inflation rate. So unions have an inflationary impact by reducing productivity and thus lowering, not raising, the general level of real wages.

Market Efficiency Hampered

The best way to increase productivity, improve the living standard of all workers, and help retard inflation is to allow competition in free and open markets. Unfortunately we can expect little support in this direction from organized labor. Union leaders cannot tolerate the efficiency of competitive markets because what they have to offer their members comes from their ability to reduce the free market opportunities of others.

The very existence of organized labor depends on its ability to use its political influence to sabotage the efficiency of the free enterprise system. If allowed to operate freely, the market process would simply circumvent union efforts to impose inefficiencies on the economy. This would leave union leaders with little to justify their healthy incomes, but also with little ability to undermine productivity, aggravate inflation and thereby reduce, in the long run, the real incomes of us all, union and nonunion workers alike.

IDEAS ON LIBERTY

Unionized Unemployment

UNEMPLOYMENT prevails where a person who wants to work for the wage an employer is willing to pay is prohibited from doing so by some outside power. So fewer hours than wage earners would prefer of their own free choice amounts to the same thing as forced unemployment.

F. A. HARPER, *Why Wages Rise*

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Wealth of Nations in Crisis

IN ITS REITERATION of home truths, Ronald C. Nairn's *Wealth of Nations in Crisis* (Bayland Publishing, P.O. Box 25386, Houston, Texas 77005, 288 pp., $12.95) is a simple book. The title harks back to Adam Smith; the "lesson" is that State incursions into the economic process work only toward the impoverishment of people. But simplicity is not enough in a world that has succumbed to illusions. So, as a means to establishing his basic point that the individual must be allowed to make his own decisions if human productivity is to be revived, Mr. Nairn has been at back-breaking pains to illustrate what has been happening all over the world to inhibit the three-billion-strong peasant populations whose farming activities keep a billion city dwellers alive.

The virtue of Mr. Nairn's book resides in its incredibly learned detail. Nairn's own experience in life has given him a unique perspective. He was born in Ireland, and raised on a cattle and sheep ranch in New Zealand. In World War II he enlisted as an RAF fighter pilot, and after the war he gravitated to Asian countries where he became fascinated by the ways which peasant societies adopted to cope with the problems of monsoons, drought, and the knowledge that bureaucratic governments dominated by city-bred mandarinates could be more terrible than tigers. In between his Asiatic assignments he took degrees at Yale University, and he established himself as an expert in agricultural management in Arizona.

In his own way Mr. Nairn is an

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intellectual cousin to the French physiocrats. He believes that the abolition of poverty begins with a proper individual respect for the soil which, in conjunction with the sun and water, is the source of human energy. Technology is important, money—or credit—is important, but the human being, faced with the need to outwit the caprices of nature on the land, is, as Nairn puts it, "the alpha and omega of all that happens to this planet."

Where tradition has been supportive of free farming, whether by individuals or family units, the land has always yielded plenty. Land doesn't even have to be good to keep people alive if they make the right choices and are willing to work. Nairn, as befits someone who was born in Ireland, knows about the Aran islanders, who have literally created their own soil by mixing kelp and sand and using it to raise calorie-rich potatoes.

Freedom and Abundance

In America, where the government desisted from the temptation to impose continuing bureaucratic conditions on individuals who took advantage of the Homestead Act, enough people have made wise decisions to create an agricultural abundance capable of feeding the world. But where ideologues have held sway, peasant populations have been unable to use native common sense to the end of keeping both themselves and their dependent city cousins alive.

It is the human being as a power seeker that prevents the creation of an agricultural plenty sufficient to sustain even the wildest sort of population explosion. Wars, provoked by politicians, are the cause of continuing instability—and farming can't "take off" when the rules of land tenure are in continual jeopardy. The other big "inhibitors" in the agricultural equation are ideology, politics and bureaucracy. Culture itself can be an inhibitor, but it is not necessarily so where family tradition does not frown on individual experiment.

The ideologue, supported by politicians and bureaucrats, thinks that mankind can be made over. But the peasant, who has to outguess the heavens and deal with nature's recalcitrance, knows better. Mr. Nairn has been a fascinated watcher of events in the two Chinas, the one that is limited to the small island of Taiwan and the bigger mainland territory that was conquered by Mao Tse-tung's Marxist-derived ideology. The Taiwanese Chinese, rejecting ideology, solved their productive problems by deciding to refrain from creating continuing economic bureaucracies. They used government in the first instance to finance the purchase of land from big landlords, selling it in turn to individual farm-

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ing families. The landlords were paid off in industrial securities, which satisfied their capitalistic instincts. Thus the problem of setting up a nation of free farmers was solved without the class warfare that has wrecked the polity of the mainland Chinese.

The ironical thing is that the mainland Chinese are now coming to recognize the superior wisdom of the Taiwanese. After all the debilitating spasms of the Cultural Revolution and the Great Leap Forward, which produced only a misery that killed millions, the ideologues in Peking have been forced to rehabilitate the primacy of the family on the soil. Family teams have been constituted as social and marketing units, and some seven per cent of the farmed land has been allocated to individual families for private gardens.

Smothering Productivity

In Soviet Russia, Stalin and his successors were forced to permit some private gardening and the peasant retention of a few cows, pigs and chickens in order to put food on the tables of Communist Party functionaries in the cities. But the persistence of ideology in Soviet Russia leads to chronic grain shortages and deficient meat supplies. The low productivity of the state farms keeps half the Soviet population chained to the countryside.

In the western world it is the growth of bureaucracy that threatens to inhibit the agricultural producer. In 1975, so Nairn tells us, more than 8,000 new regulations were added to the U.S. regulatory lexicon. Simple arithmetic shows that no human being can keep up with this output. A dairy cattle feed additive was approved by one agency, but milk drawn from the cattle was condemned by other regulations. Milk was poured down the drains for almost a year until the conflict was resolved in favor of the additive.

Luckily, says Nairn, a "benign neglect" of the law has kept American agriculture from coming to a halt. But much damage has been done by the regulators. The development of natural biological pesticides (insect-attacking bacteria and hormones) was halted by stupid rules—and so we have had to go back to using chemicals that do have undesirable side effects.

Nobel Prize-winner Friedrich Hayek has been quoted as saying that Nairn's book is one of the most important economic treatises of recent years. It raises a host of fascinating questions, such as why is only 22 per cent of Africa's arable land farmed? The answers are political, not economic.

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THE POLITICIZATION OF SOCIETY
Edited by Kenneth S. Templeton, Jr.
(Liberty*Press*, 7440 North Shadeland, Indianapolis, Indiana 46250), 1980
541 pages ■ $10.00 cloth; $4.50 paperback

Reviewed by Tommy W. Rogers

THE POLITICIZATION OF SOCIETY consists of fourteen essays, plus an introduction by Dr. R. M. Hartwell of Oxford, which focus on the central problem of modern society—the growth of the state—and its significance for the individual. Politics, Dr. Hartwell observes, has become the modern religion, with the state being the arbiter of major decisions relating to working, living, and believing.

Some highlights: Felix Morley's essay demonstrates cogently that state power, no matter how well disguised by seductive words, is in the last analysis always coercive power. Murray Rothbard advises that since the natural inequality of ability and of interest among men makes elites inevitable, the only sensible course is to abandon the chimera of equality. The objective would be to permit the rise of what Jefferson described as "natural aristocracies," but not the artificial aristocracies of coercive oligarchs who rise to power by invading the liberties of their fellowmen. In such a free society, all would be equal only in liberty, while diverse and unequal in all other respects.

In an essay titled "The New Despotism," Dr. Robert A. Nisbet reminds us that large-scale government, with its passion for equalitarian uniformity, has prepared our minds for uses of power, for invasions of individual privacy, and for the bureaucratization of spirit. "Very commonly in ages when civil rights of one kind are in evidence—those pertaining to freedom of speech and thought in, say, theatre, press, and forum, with obscenity and libel laws correspondingly loosened—very real constrictions of individual liberty take place in more vital areas: political organization, voluntary association, property, and the right to hold jobs, for example."

Michael Oakeshott outlines the rise and fall of individualism since the Renaissance era; Donald Dozer and Herbert Butterfield warn against official history. An example given by Dozer is "the so-called China White Paper, prepared under the supervision of the chief of the historical division of the state department in Washington and published in August 1949. Its egregious omissions, its inaccurate paraphrases, and its tendentious editorializing expose it to be nothing but a propaganda document."

The final essay is F. A. Hayek's "Kinds of Order in Society." He ar-

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gues that a civilized society is not the deliberate result of conscious human design; it is a spontaneous order which emerges naturally in consequence of the peaceful actions of individuals. It is therefore not surprising, he concludes, that the consequence of modern democratic legislation is probably the most irrational and disorderly arrangement of affairs ever produced by the deliberate decisions of men.

Although these essays were written independently and at different times, they share common themes of focus on the origin of the state, why modern society has become politicized, and the consequences of the growth of the state.

FUGITIVE ESSAYS: Selected Writings of Frank Chodorov
Compiled, edited, and with an introduction by Charles H. Hamilton
(Liberty*Press*, 7440 North Shadeland, Indianapolis, Indiana 46250), 1980
416 pages ■ $9.00 cloth; $4.00 paperback

Reviewed by Edmund A. Opitz

I never sat in a class under Frank Chodorov, but he was nevertheless one of my more memorable teachers. It began in 1947 with the Nock Memorial issue of *analysis*, given to me by a friend who knew of my interest in A.J.N. I subscribed to the paper, a monthly four page broadsheet written, edited, and published by one Frank Chodorov. Each issue contained a lead essay in prose as cerebral as Arnold's, but more visceral, pungent commentary on passing political foibles, a book review or two, occasional letters to the editor. I was hooked.

Frank was a man with a cause, as dedicated as any prophet of old to the ideal of individual liberty and the free economy. Reading and experience had stocked his mind, teaching and debate had honed his rhetorical skills, his prose was polished, and his go-for-broke commitment to his beliefs energized his words.

He called himself an Individualist, for every person in his eyes possessed a supreme worth no group could diminish. "One is a crowd," he would say, and thus he entitled one of his books. He appealed to all kinds of audiences, enjoying especially the give and take he had with students. Speaking to clergymen, he came on like an Old Testament prophet. He charmed them by his salty account of Joseph as the Pharaoh's secretary of agriculture; he gave them a lesson in political philosophy by retelling the story of Saul's anointing as king of Israel. We shall not see his like again.

It is too late to meet Frank in person, but the reader will get to know

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the man in the pages of this book. The editor has selected wisely and virtually every theme of Chodorov's work is represented; God and natural law, the economic origin of the state, the erosion of social power by political power, the importance of private education, the evils of the progressive income tax, the insanity of war, the idiocy of socialism, the fundamentals of economics, the exhilaration of joining the fight for freedom. And there is a fine introductory essay by Mr. Hamilton.

Chodorov reads well and, as I will attest, he rereads well. This collection will be welcomed by Frank's old friends, and I predict it will make new ones.

THE COUNTER-REVOLUTION OF SCIENCE: STUDIES ON THE ABUSE OF REASON
by F. A. Hayek
(Liberty*Press*, 7440 North Shadeland, Indianapolis, Indiana 46250), 1979
415 pages ■ $9.00 cloth; $4.00 paperback

Reviewed by Bettina Bien Greaves

THE late professor Ludwig von Mises, leading spokesman for many years of the "Austrian School" of economics, used to emphasize the importance of analyzing seriously any economic "fashion" or "fad," no matter how unrealistic or utopian it might appear. Mises' fellow-countryman, economist and personal friend, Nobel Prize Laureate F. A. Hayek, has carefully analyzed one of the most "fashionable" and yet one of the most destructive doctrines of modern economic thought—the idea that the methods of the physical sciences are applicable also to the study of society.

In his *The Counter-Revolution of Science,* first published in 1952 and now reissued in a beautifully printed and bound new edition, Hayek carefully dissects and systematically analyzes positivism and historicism—two sociological doctrines which helped provide the basis for modern socialistic theories. This critique is profound and well worth the while of anyone seriously interested in the methodology of the social sciences and the history of economic thought.

Many Social Scientists *Turn Reason Upside Down*

Hayek's concern is with the way reason has been turned upside down by many social scientists. The predecessors of modern socialism, whose ideas Hayek criticizes, were writing in the early 19th century. Scholars had by then pretty well freed themselves from the restrictions and taboos of mythology and medieval religious superstitions. Knowledge

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about the physical world was being expanded by leaps and bounds. The "industrial revolution," with its many new inventions, was improving production, communication and transportation. With goods and services more readily available, living conditions were improving noticeably for everyone, especially the "common man" and the poor. More babies were surviving and people were living longer and healthier lives. The increasing population furnished eloquent testimony to the advances that could be made by applying the methods of the physical sciences to mechanics and technology. It is not very surprising, therefore, that it became fashionable to try to adapt the physical science methods to almost every discipline. However, they are completely inappropriate to the study of human action and society. Explaining why this is the case is the subject of Hayek's book.

Hayek points out that all science starts with classification. In the physical sciences, objects are classified by unchanging characteristics that are both measurable and distinguishable by controlled and objective tests. But not in the social sciences. The social sciences deal with the actions of men. And men are not automatons. Men think. They have different values, varied goals and many purposes. Men choose among alternatives. They act purposively. Their actions cannot be classified without reference to their subjective (personal) ideas, values and goals. The results of their actions cannot be quantified, measured or predicted in advance. Moreover, changes are always taking place. The ideas, values, aims, choices and actions of men vary from time to time, depending on actual conditions and the knowledge available to them.

Individuals Ignored

Modern socialists, and their intellectual predecessors whose doctrines Hayek examines, sought to analyze and plan society as a whole. In doing this, they ignored individuals and their ideas, values and purposes. And they also overlooked the inevitability of change. Yet many professors and authors, whose teachings and books are widely respected today, are still influenced by the fallacies Hayek criticizes, which stem from the belief that society may be analyzed and planned by using the methods of the physical sciences—observation, experimentation and measurement.

Hayek devotes more than half of this book to several little known Frenchmen who originated and advocated this theory. He considers their ideas influential in the intellectual development of Karl Marx and, thus, responsible for practically all varieties of modern socialism. He examines, in some detail, this par-

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ticular phase in the history of economic thought because he hopes that it may "help us become aware of much that governs our own thought without our explicitly knowing it . . . and perhaps assist us to purge our minds from influences which seriously mislead us on questions of our own day."

In addition to analyzing the errors in the methods of those whose doctrines led to modern forms of socialism, Hayek also explains the origin of social institutions such as the market, prices, money, language, etc. Hayek points out that society itself, which provides many benefits to its individual members is the unplanned outcome of the actions of many individuals. Their separate, independent, purposive and voluntary ideas and actions led unintentionally to its formation. And changes are now going on that will be responsible for society's evolution into something very different in the future. Those who seek to reform society and cope with social problems must learn to appreciate the role of freedom in the evolution of useful, if unplanned, social institutions.

This book should help readers recognize the impossibility of successful central planning and of trying to create social institutions by design. It will also explain to serious scholars the important distinctions between the methodologies of the physical and social sciences.

SOCIAL SECURITY: THE INHERENT CONTRADICTION
by Peter J. Ferrara
(CATO Institute, 747 Front Street, San Francisco, CA 94111), 1980
484 pages ■ $20.00

Reviewed by Tommy W. Rogers

SOCIAL SECURITY absorbs one-fourth of the federal budget. Its sacrosanct nature and mythology makes it virtually immune from serious criticism. It has long been misrepresented and deceptively described by welfarist politicians and liberals to create a false impression among voters about the shortcomings of the program. As Milton Friedman has expressed it, social security is the only institution that could take a tax structure no one would support on its own and a benefit structure no one would support on its own, slap them together, and emerge with a combined tax-benefit structure that is often highlighted as the showpiece of America's welfare state!

Nevertheless, the glitter has been penetrated somewhat by the realities which have become apparent in recent years. Social Security is a pay-as-you-go system, not a system whereby "contributions" are saved or invested—the government's assertion that "contributions" are invested in interest-bearing securities means only that the government

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writes itself a promise to tax future production to cover benefits as they become due.

A pay-as-you-go scheme in its initial phase will run huge surpluses because there are many current taxpayers but few or no current beneficiaries entitled to payments. Meeting the obligations of the program is not a cause for concern because there are few obligations to be met. The system appears to be financially sound. However, after the first generation of beneficiaries, the program builds up huge liabilities which require accelerated extractions from current production. The focus of concern is then switched from paying out surplus benefits to the raising of taxes to meet the ever-accelerating benefit obligations.

In 1977 Congress passed one of the largest tax increases in U.S. history to save the system from bankruptcy. Social Security taxes—amounting to about sixty dollars annually for the first fifteen years of the program—had turned into a monster gobbling up $3,000–$4,000 dollars yearly with escalations already built into the structure. To pay benefits currently being promised, tax rates will have to be raised to 25–33% of the taxable payroll, contrasted to 12% today.

The rate of return from a pay-as-you-go system comes not from increased output but from increased taxes. Social Security is sometimes described by its proponents as a "compact between generations." Here is what really happens. When a social insurance plan is first imposed, the current retired generation makes a deal to share a portion of the wealth produced by the current working generation, which saddles the next working generation with the responsibility for paying the resulting indebtedness. When the next working generation becomes the current working generation, they face a huge debt owed to the now current retired generation. Since they have to make good on these liabilities regardless of whether they continue in the program, they decide to keep the program and vote to tax the next generation even more to finance ever-greater benefits to themselves. Future generations have no way to prevent this "compact between generations" being imposed upon them.

As Ferrara observes, it is not surprising that the decision to tax future generations to provide benefits to current generations can easily lead to the imposition of a program that makes all future generations worse off than it makes the current generation better off!

The social security compact between generations is, Ferrara writes, corrupted by self-dealing wherein the first generations take unfair advantage of the generations to come. "Under traditional principles of equity, therefore, the social security

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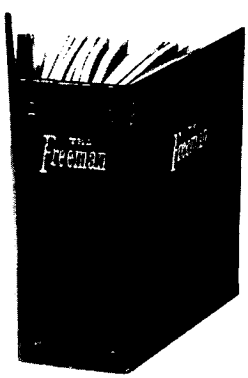
compact between the generations is unfair, immoral, fraudulent, and voidable." As the number of retirees increases in the future, the strain to meet the obligations will become enormous, and could provoke serious taxpayer resentment if not support for programs of euthanasia.

It is hardly questionable that the time is ripe for significant reform of the social security program. Ferrara advocates that the entire insurance portion of the social security program be turned over to the private sector. Individuals would be allowed to provide for their old age and other contingencies by investing in private insurance, savings, and pension plans with the funds they would have paid in social security taxes. The stark reality of the current program, the author contends, is that it "is simply not working" and that, as the public has already been warned in the words of the *Wall Street Journal,* "The social security program will return like Banquo's ghost until really serious and courageous efforts are made to solve it." There is no reason to believe that social security, with the persistence of the Egyptian sphinx, must remain in its present form for all time to come. It can and must be changed in manner which is consistent with greater individual choice and autonomy.



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